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18 February 1981

# Japan Report

(FOUO 12/81)

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## JAPAN REPORT

(FOUO 12/81)

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POLITICAL AND SOCIOLOGICAL

SIGNS OF THAW IN JAPAN, PRC COMMUNIST RELATIONS

Tokyo ASAHI EVENING NEWS in English 31 Jan 81 p 3

[Text]

Signs of a normalization of relations between the Communist parties of Japan and China are appearing and the parties may be secretly in contact, according to public security sources.

They said they are particularly paying attention to the publication in the People's Daily, the official newspaper of the Chinese Communist Party, of an article published in the Jan. 10 issue of the Japan Communist Party daily, Akahata.

This is the first time that the Chinese paper has run an article originally appearing in Akahata since the two parties became unfriendly in February 1966, they said.

The People's Daily published for two days in a row in mid-January Akahata's article on Afghanistan.

The sources also said they were watching with interest the response to the JCP's statement on Jan. 24, in which it said that it was asking China to return a 2,000-page memo that former JCP Politbureau member Ritsu Ito allegedly wrote while he was held in

China.

Ito returned to Japan last September after being in China for 29 years, most of which he spent in prison.

The sources said it was not unusual for the JCP to be in contact with leading Chinese sources in Tokyo on the return of Ito's memo.

The People's Daily on Jan. 14 printed the Akahata article which criticized the Soviet Union for its intrusion into Afghanistan.

Introducing it as one of the reports appearing in two nationally circulated newspapers in Japan, the daily said Akahata called the Soviet intervention in Afghanistan a "unilateral action" and not on the basis of Afghanistan's request.

On Jan. 15, the daily also printed part of Akahata's article which said the Soviet military intrusion into Afghanistan violated the Afghan's rights for self-determination and called for an immediate withdrawal of Soviet troops.

The sources said the daily's reports appeared while a supra-partisan delegation of members of the house of

councillors, including a JCP member, was in China.

They added that the JCP recently stated its opposition to the publication of an article critical of China by a Soviet theoretical journal.

The sources said it was not "mistaken" to believe that the two parties are groping for normalization of their relations on the basis of their criticism of the Soviet Union.

They said the failure of the Japan and Soviet Communist parties in reaching agreement on Afghanistan in their talks in Tokyo last Dec. 5-9 apparently brought the JCP and the Chinese Communist Party a step closer.

JCP leader Kenji Miyamoto said after the party convention last year that China might in the near future seek improvement of relations with the Japan Communist Party.

The relations between the two parties became deteriorated in 1966 after Miyamoto visited Peking and disagreed with the late Mao Zedong on some policy matters.

—Kyodo

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POLITICAL AND SOCIOLOGICAL

LDP IN DILEMMA OVER SASAKI PROPOSAL ON SDF

Tokyo ASAHI EVENING NEWS in English 31 Jan 81 p 3

[Text]

The Liberal - Democratic Party faces a dilemma over the proposal by the Democratic Socialist Party to submit a resolution to the Diet asserting that the Self-Defense Forces are constitutional.

The proposal, which was made by DSP Chairman Ryo-saku Sasaki, was discussed in meetings of LDP executives and of the LDP's Executive Board Friday. Zentaro Kosaka, chairman of the LDP Foreign Policy Committee, submitted a written memo to the top LDP officials saying that the proposal of the resolution should be supported.

Though it might be thought that the LDP would welcome the fact that such a proposal has been made by an Opposition party, it cannot agree so readily since the passage of the resolution might result in hindering the LDP drive for the amendment of the Constitution.

The LDP has decided to leave the matter up to its Policy Board and to decide on its position after ascertaining the motives of the DSP in proposing the resolution.

In the meeting of party executives Friday, Secretary-General Yoshio Sakurachi

asked the Policy Board members to study the matter thoroughly since DSP Secretary-General Saburo Tsukamoto had said that the purpose of the DSP's proposal was to put an end to the campaign to amend the Constitution.

In the Executive Board meeting Friday, cautious and negative opinions were expressed, including the opinion that it would be impossible to get such a resolution unanimously approved by the Diet since the Japan Socialist Party and Japan Communist Party would oppose it.

Meanwhile, the JSP discussed the matter at a meeting of its Diet Policy Committee Friday and confirmed that it would oppose the resolution.

The JSP feels that there is practically no possibility that the resolution will be submitted to, and approved by, the Diet, and it is worried about the political repercussions on the debate over constitutional amendment.

The JSP said that Chairman Ichio Asukata and others will draw up the official position of the party on the matter.

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STRAIN OF LOCKHEED TRIAL ON TANAKA VIEWED

Tokyo MAINICHI DAILY NEWS in English 22 Jan 81 p 4

[Nagatacho Doings column by Takehiko Takahashi: "Former PM Tanaka in Painful Position"]

[Text]

A certain political commentator spoke as follows:

"On Jan. 12 at about 6 a.m., I was reading an article based on an interview with former Prime Minister Kakuei Tanaka in the Bungei Shunju magazine. As I dozed off afterward, I dreamed of Tanaka's death. Later, at about 10.30 a.m., I was surprised by the coincidental news that Tanaka had collapsed."

In the article which appears in the February issue of the Bungei Shunju magazine, in the form of a dialogue between former Prime Minister Tanaka and Soichiro Tawara, Tanaka refers to his state of health in a very long-winded manner. Tanaka declares:

"As a matter of fact, I have a light case of hyperthyroidism. It's called Basedow's disease. As you may know, I perspire a lot. This is caused by hyperthyroidism. My quick temper and impatience are also caused by this disease."

Tanaka also spoke of various medicines that he had tried and was now taking. He added that besides the hyperthyroidism, he suffered from high blood sugar levels and that this was the

reason why he withdrew from the premiership. In this way he emphasized that the reason why he resigned from the premiership was not "money politics" but his health condition.

It was shortly after this magazine article appeared that the news came that Tanaka was "having difficulty in breathing and that an ambulance has been called." A great uproar took place. Representatives of mass communications and politicians converged on the Tanaka residence in Mejirodai.

**Tanaka Strength**

Tanaka recovered soon afterward. He was present in the courtroom at the Jan. 14 hearing of the Lockheed case. But the rush of a large number of politicians to the Tanaka residence immediately after the report that "Tanaka has collapsed" testified anew to the strength that Tanaka wields in the political world.

Tanaka has been quite active recently. The Tanaka faction (Thursday Club—chairman: Susumu Nikaido, head of the LDP Executive Council) has



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become a big influence, having more than 100 Diet members. In the Liberal-Democratic Party, no matter who may become the prime minister, a situation has been built up whereby the existence of this giant faction can never be ignored.

It was at such a time that Tanaka admitted his health condition and, as if providing evidence of this, he suffered from breathing difficulty, even if temporarily, and an ambulance had to be called.

Many speculations have begun to spread in the political world regarding this. The views are diverse but the largest number of opinions boils down into: "Tanaka will probably be unable to display the same strength as in the past. He is already 62 years old. Moreover if, as he says, he is suffering from hyperthyroidism and a high amount of blood sugar, anxiety must be felt concerning his health. Besides, his recent collapse must be considered, from the medical standpoint, as a stroke caused by stricture of the heart. Because of the health condition of their leader, the members of the Tanaka faction must have started thinking of many things."

In addition, Tanaka is in-

volved in the trial of the Lockheed case. The Tanaka side has continued throughout to deny that 500 million yen have been received. As against this, a certain lawyer says that "those on the side asserting that the money was delivered are all persons who have had a reputable social standing up to now. Their testimony is certain to be trusted by judges. Accordingly, the assertions of the Tanaka side are not likely to be accepted."

**Mental Stress**

The day is approaching when Tanaka himself will testify in court. This is bound to cause great mental stress. If he places strong emphasis on "illness," he will become able to engage in further political activities.

This is where Tanaka faces a very difficult choice. No matter how aggressive he may be, he is bound to feel great fatigue. This cannot be avoided because of the effect of the illness that Tanaka has admitted.

Tanaka is being placed in a most painful position, such as he has never experienced before.

*(The writer is an adviser of the Mainichi Newspapers and former chief editorial writer).*

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POLITICAL AND SOCIOLOGICAL

OPPOSITION'S POWERLESSNESS OVER BUDGET NOTED

Tokyo MAINICHI DAILY NEWS in English 28 Jan 81 p 4

[Nagatacho Doings column by Takehiko Takahashi: "Opposition Parties Powerless as Diet Discussion Starts"]

[Text]

The ordinary session of the Diet has been resumed. Discussions are starting, centering on the fiscal 1981 budget. The government and Liberal-Democratic Party are confident that because of the comfortable majority held in both the House of Representatives and the House of Councillors, the fiscal 1981 budget will be approved before March 31, the end of the current fiscal year.

Drafting of the fiscal 1981 budget was carried out smoothly. In the past, because the government and opposition parties were in a state of near equilibrium, it was necessary during the compilation to heed the wishes of the opposition parties. Otherwise the passage of the budget would have been obstructed.

This time, Prime Minister Zenko Suzuki met the opposition leaders as a matter of form. The opposition's wishes expressed at this meeting were not necessarily taken into consideration in compiling the budget.

The opposition parties are in a quandary about the attitude they should take toward the

fiscal 1981 budget. There is little possibility of a draft revision being prepared together by all the opposition parties, including the Japan Communist Party.

At the time of the fiscal 1980 budget, a "coalition government" concept existed among the opposition parties and they were able to take joint action regarding the budget. Today the "coalition government" concept has more or less faded away and taking joint action has become difficult.

On the other hand, even if the respective opposition parties were to prepare budget revision drafts separately, these would only be "crushed" by the LDP. The opposition parties are powerless in this respect. Accordingly, one of the themes of the current Diet session centers on what attitude the opposition will take toward the draft budget.

The feeling among the opposition parties is that the situation should not be abandoned without a struggle. But if this resistance were to take the form of "refusal to participate in discussions," the people's support will not be obtained. The opposition parties are now

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pondering deeply on the kind of "resistance that the people will support."

One strategy that can be thought of now is to concentrate the attack on the coordination between the fiscal 1981 budget and government's seven-year economic plan. In order to press the government on this point and trip up its replies to interpellations, the opposition parties must study the subject thoroughly.

**Careful Research**

Junya Yano, secretary general of the Komeito, and Saburo Tsukamoto, secretary general of the Democratic Socialist Party, who will be the first to interpellate in the House of Representatives Budget Committee, are said to be engaged in careful research on this problem at the moment.

The greatest anxiety that the government and the LDP have concerns the replies that the cabinet ministers will give to interpellations. A strong opinion is held within the LDP that once a reply is given, it should never be changed, no matter how vehemently the

opposition might attack it. In the background of this view is the feeling that since a comfortable majority is held, a reply once given can be pushed through no matter what the opposition may say.

Nevertheless, some anxiety seems to exist in regard to the defense problem. Since the problem has been thoroughly thrashed out at the working level and compiled in memoranda, the LDP leaders are being asked to read these memos when the problem of defense crops up.

Past experience in Diet discussions shows that the defense problem has been the biggest factor in bringing Diet discussions to a temporary halt. That is why even the director general of the Defense Agency is being asked to read the memos prepared at the working level instead of speaking extemporaneously.

In making replies to interpellations, Prime Minister Suzuki often reads memos. He has said that "what is necessary in making replies are the exact words contained in the records." He urges that replies be given centering on memos. This method is likely to be

followed in the replies made to interpellations on the budget also.

The opposition, particularly the Japan Socialist Party, is likely to press upon Prime Minister Suzuki from the political viewpoint that the Suzuki administration is moving toward the right. In this respect, replies are being prepared, centering on Chief Cabinet Secretary Kiichi Miyazawa, and Prime Minister Suzuki is likely to reply in a manner faithful to the prepared scenario.

Therefore, because of the opposition parties' powerlessness before the LDP's comfortable majority, little confusion is expected and there is a strong possibility that the 1981 budget will be passed according to the LDP's strategy.

In the midst of such a situation, what will be interesting to see is the extent to which the opposition parties will attack the replies to be given particularly by the controversial Justice Minister Seisuke Okuno, and also by Finance Minister Michio Watanabe.

*(The writer is an adviser to the Mainichi Newspapers and former chief editorial writer).*

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SUZUKI RETURNS WITH COMMITMENTS TO ASEAN COUNTRIES

Tokyo MAINICHI DAILY NEWS in English 22 Jan 81 p 2

[Editorial: "Difficulties Ahead for Suzuki"]

[Text]

Japanese Prime Minister Zenko Suzuki returned home Tuesday from a 13-day tour of the five ASEAN countries, his first since taking office, strongly convinced that "Japan must think and strive together" with the nations he visited.

During his junket, the prime minister made various commitments. Among them were: Japan will not become a military power threatening other nations; Japan will play a political role to help maintain world peace — a role commensurate with its economic power; its economic cooperation with the ASEAN area will be extended in such priority areas as helping promote agricultural and regional development and foster small- and medium-sized enterprises.

Among those commitments, the most significant of all was his reaffirmation of Japan's stand that "Japan will not become a military power."

There had been expectations in some ASEAN quarters that Japan would assert a military influence there, replacing the U.S. to maintain a military balance between Peking and Moscow, as well as fears that Japan might follow the path of militarism as in the past.

In this respect, the prime minister allayed such fears by making it unequivocally clear that Japan's military role would be strictly self-defensive.

He said in a Bangkok speech "Remembering the grave mistakes we committed in the past, it is wrong to expect Japan to play a military role in international society, nor is it reasonable to fear Japanese militarization."

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We believe this commitment deserves due credit, but at the same time, he is urged to reflect on it in formulating the nation's defense policies, and not merely pay lip service.

He is also urged to explain Japan's basic defense policy to the new American president in unmistakably clear language when he visits Washington in the near future.

The second important promise Suzuki made concerns "Japan's political role in helping maintain peace in the international community — Southeast Asia in particular."

The promise was made out of Japan's consideration toward helping solve the Cambodian problem. He has already called the U.N. secretary general to take the initiative to open an international conference based on a U.N. resolution as a means of resolving the issue.

This may be difficult, however, in view of the strong antagonism between China and Vietnam.

Under these prevailing circumstances, Japan will find it difficult and nearly impossible to act as an effective intermediary as long as its diplomacy toward Vietnam remains unchanged — Japanese economic aid to Vietnam has been frozen for some months.

Japan, thus being diplomatically unable to contribute toward solving the Cambodian issue, may now be called upon for efforts to create an understanding with Vietnam, through such means as promoting cultural exchanges with the country. Japan may also be urged to ask Washington to normalize its relations with Vietnam to create an environment in which Vietnam can be neutral, politically, economically and militarily, uninfluenced by both China and the Soviet Union.

It will not serve in Japan's interests to give Vietnam the impression that Japan is formulating a "containment policy" toward the Soviet Union and Vietnam through collaboration with the U.S., China and the ASEAN. To eliminate such apprehension will be Suzuki's most difficult task in the future.

Suzuki's pledges concerning Japan's economic cooperation to the ASEAN area — to help foster agricultural and regional development, promote

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small enterprises, develop alternate energy sources and cultivate human resources including the training of skilled labor — were well received in every country he visited.

We hope the prime minister will honor these pledges, so as to be able to promote the countries' infrastructures, as well as those already made by his predecessors to promote new industrial projects in the region. He is also called on to open wider the Japanese market to ASEAN goods.

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POLITICAL AND SOCIOLOGICAL

ASEAN AGRICULTURAL DEVELOPMENT AID URGED

Tokyo MAINICHI DAILY NEWS in English 3 Jan 81 p 2

[Editorial: "Agricultural Development Aid"]

[Text]

Throughout his recent Southeast Asian junket, Prime Minister Zenko Suzuki emphasized Japan's determination to extend development aid on a solid basis. His sincere manner in tackling the problem appealed greatly to the leaders with whom he met and exchanged views, in an attempt to promote better understanding and bring about closer ties.

"Agriculture is the key to political stabilization of Southeast Asia," Suzuki declared, adding that Japan is willing to cooperate fully with these countries for the improvement of roads and other basic agricultural facilities.

Agricultural development is one of the most effective means to modernize developing nations, but it will not bear immediate fruit as in the case of industrial development. Hence, it is necessary to buckle down to the work with untiring efforts so that we can live up to the expectations of these countries.

Japan and Southeast Asia belong to the same agricultural pattern in that they are located in the same monsoon belt, and they engage in paddy field rice growing with small-scale farmers. Japan's agricultural cooperation has hitherto been extended with the idea that its improved methods can be effectively applied there too.

Cooperation based on such a notion, however, has failed to produce results as expected. While Japan and Southeast Asia have much in common, they have many differences concerning agriculture. Foremost are the parasitic landowners and the distribution system controlled by Chinese. We have somewhat closed our eyes to the traditional social systems of these countries for fear of meddling.

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It must be emphasized that this country has no intention whatsoever to interfere in the domestic affairs of other nations, but unless these obstacles are removed, if possible on their own accord, Japanese agricultural aid will bear little fruit. Depending upon the circumstances, it is feared that this aid may end up "assisting these parasitic landowners and the distribution system."

Admittedly, it is true that land reform has always been one of the most difficult issues for any country. In the case of Japan, land reform took more than 70 years, being successfully carried out with the strong backing of the occupation forces following the end of World War II. As history shows, land reform is easier said than done.

As a result, however, domestic markets were expanded promoting a balanced economic growth. Only then was Japan able to modernize. Thus, the experience of Japan can contribute a great deal toward furthering agricultural improvement in the Southeast Asian countries.

It is hoped that the various governments in this part of the world will make the best use of this experience. Notwithstanding the political and economic difficulties in the respective countries, they must take the initiative in solving this problem, otherwise modernization will take a very long time.

On the other hand, we call on the Japanese government to scrutinize our aid system for agricultural development. We are quite strong in the field of rice harvesting, but in other fields we cannot necessarily offer much.

The recipients of this assistance are not very well correlated with each other in such fields as agriculture, medicine and education. A farming village should be regarded as one complete entity. Aid which is both inconsistent and unrelated to the whole will be least effective.

From a long-range standpoint, we urge the training of farmhands. Producers' organizations in this country such as agricultural cooperatives and associations in areas designated for land improvement should provide a good example to farmers in developing nations. Personnel exchanges between farmers of respective countries cannot be emphasized too much in this regard.

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Agricultural development is an enterprise requiring huge amounts of money and time, while its achievements are not immediately discernible. A near-sighted concept such as rushing shipments of "hardware" will only cause distrust in these countries. Our aid must include "software" such as land reform and personnel training.

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MILITARY

U.S. UNDER REAGAN VIEWED BY VICE MINISTER OF DEFENSE

Tokyo MAINICHI DAILY NEWS in English 1 Feb 81 p 4

[Interview with Toru Nara, vice minister of defense, by Toshihiko Nishi and Hironobu Yanagida, date and place not given]

[Text]

*EDITOR'S NOTE—President Ronald Reagan's administration appears ready to put pressure on Japan to pay more heed to a wide range of issues of mutual concern. In particular, the defense role Japan should play seems to be the hottest issue as the Republican president is seeking a militarily stronger position for America as well as for its Western allies.*

*In principle, Reagan's request for Japan's defense role will remain almost the same as Carter's, but President Reagan may try to drive Japan into a defense buildup at a faster pace than Carter did, said Toru Hara, deputy director general (vice minister) of the Defense Agency. In an interview with the MDN he sized up his outlook on how the U.S. under the Reagan administration, and Japan, will get along with each other in finding a common military goal. Excerpts of the interview are as follows:*

**Mainichi:** Mr. Vice Minister, what is the impression you have obtained from the lineup of President Reagan's secretaries of defense and state, and national-security adviser?

**Hara:** As the new president has repeatedly vowed, the lineup tells the world that America is going to become stronger against the ever muscle-flexing Soviet military power.

At the same time, the lineup shows that America will try to forge a more solid Western solidarity than before.

**Q:** In that case, which defense phases of Japan will be affected the most?

**A:** Basically, I think, Reagan's America will repeat Carter's bid for Japan's steady defense efforts, particularly in the field of antisubmarine and air capability.

I don't think President Reagan will push for Japan to change its defense "golden rule"—nonnuclear power, military capability only for defense, and the Japan-U.S. Security Treaty.

Some circles in America argue that Japan should reconsider these principles. But the argument, I believe, is not that of the U.S. administration.

The current volatile world situation is urging us to achieve the Defense Program Outline (designed in 1976) as quickly as possible. Former President Carter asked Japan to speed up

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the program. President Reagan will probably follow suit.

Q: Won't President Reagan call on Japan to share a role in the "division of defense" for the sake of the West's interests more drastically?

A: In my understanding, the concept means Japan must exert its utmost to defend itself within the framework of its Constitution, and the mutual security treaty.

Q: Won't President Reagan make a request that Japan shoulder a bigger role than in your understanding?

A: I don't think so.

Q: Why?

A: It is an undeniable fact that our Self-Defense Force cannot really do anything more than what I have mentioned.

Q: How do you view the idea of dispatching Japanese forces to a trouble spot abroad as part of a United Nations peace-keeping contingent?

A: This matter must be judged in the light of the Constitution. Japan's diplomatic respect for the U.N. Japan must decide this matter independently.

If Japan thinks it better to send its forces abroad in view of the diplomatic links with the United States, Japan could do so. If Japan thinks in the opposite way, it should not do so.

Q: In the fiscal 1981 budget draft, the Japanese government has set the growth rate of defense spending at 7.6 percent, far short of the 9.6 percent rise that the United States views as the minimum. Can you give America persuasive reasons for Japan's performance?

A: The DA's parliamentary vice minister recently visited the United States to explain the fiscal 1981 defense expenditures. He emphasized that the best efforts were made in the budgetary negotiations, despite the deficit-ridden national finances.

He was told that America is well aware of Japan's financial difficulty, but Japan still must take a somewhat more steely-eyed view of global trends.

I keenly feel Japan, on the one hand, and America and the European nations, on the other, are sharply falling apart because of differing views on defense. We must and are making efforts to close the gap. Without these efforts, I fear, Japan will eventually find itself isolated even in the Western world.

That is the worst thing that could happen because I sincerely believe the most vital thing for Japan's security is not to stand alone—politically, economically and militarily.

Turning to the defense outlay for fiscal 1981, it is no use regretting what has already been decided. But I want to stress that Japan must be enthusiastic about filling the gap in future defense efforts.

Q: Do you intend to accept the American request for Japan to increase its share of the cost of the U.S. forces stationed in Japan?

A: Voices are being heard among the U.S. Congressmen that Japan should shoulder the entire cost of the U.S. forces stationed in Japan.

With these voices in mind, the Japanese government is continuing to do its utmost to explore ways of expanding its share of cost.

Q: Do you have any plan to go ahead with Japan-U.S. joint military maneuvers for the ground forces, following the joint maritime maneuvers last year?

A: The Japanese Ground Self-Defense Force (GSDF) is eager to have a chance to hold Japan-U.S. military maneuvers. But, unfortunately, there are no U.S. ground force units in Japan with which the

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GSDF could conduct joint training.

The objective of joint maneuvers, I think, is not only to enhance combat techniques but also to promote communications between the two forces which differ in language from each other.

Q: How do you react to the strong U.S. proposal to deepen military ties among the United States, Western European nations and Japan?

A: Basically it is of the greatest importance for the Western allies to join hands.

However, I do not necessarily believe that it is a top priority task to promote a Japan-Western Europe military relationship because Japan and these countries are far apart geographically.

Q: Last year, the idea came from influential U.S. Congressmen that Japan should build aircraft carriers and lend them to the U.S. Navy. What do you think of this idea?

A: Various ideas of this kind have been forthcoming from the United States. This idea might be one of them.

As the idea came not through official government channels but from private citizens, I do not want to go into details.

Q: What did you think about the inauguration speech delivered by U.S. President Ronald Reagan at the official inaugural ceremony on Jan. 20, in which he emphasized American preparedness to use its forces?

A: His slogan of a "strong America" should be interpreted as meaning that the United States is aiming at becoming strong not only militarily but also politically and economically.

In my interpretation, a

"strong America" is equivalent to a "reliable America."

In general, deterrent power cannot function effectively if the person in the position of commanding the forces is not prepared to use them when necessary.

Q: How will the Soviet Union behave vis-a-vis the Reagan administration?

A: The Soviet Union will continue to seek an expansion of its influence in Third World nations against the background of its military strength while avoiding a major confrontation with the U.S., as in the period of the so-called detente in the early 1970s when the Soviet Union succeeded in building up its strongholds in South Yemen and Angola.

In this sense, the importance for Japan to maintain the Japan-U.S. Security Treaty has grown. Under the treaty Japan has been protected by the U.S. nuclear umbrella.

Q: Would you dare ask for an increase in defense spending in the state budget beyond the cabinet's decision to hold down the ratio of defense spending to 1 percent of the gross national product (GNP). Its ratio to the GNP has never been over 1 percent.

A: A consensus has already been formed among the Japanese to honor the government's decision. If the government were to increase it to over 1 percent, by reversing the decision, grave repercussions will inevitably arise.

Therefore, the Defense Agency took and will take the position of pressing its demand for an increase in defense spending in the state budget to the maximum extent within the framework of the 1 percent ratio to the GNP.

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ECONOMIC

KOMOTO SEES WORLD IN ECONOMIC SLUMP

Tokyo MAINICHI DAILY NEWS in English 1 Feb 81 p 3

[Interview with Toshio Komoto, Director-General of the Economic Planning Agency--  
interviewer, date and place not identified]

[Text]

Question: Private industry economists are saying that the economic growth goal of 5.3 percent is a little too high, but don't you as an individual feel that it is not high enough?

Toshio Komoto, Director-General of the Economic Planning Agency: No, I do not have any dissatisfactions. The seven-year economic plan has 5.5 percent as the goal for the annual growth rate, but that is an average, and it will be less than 5.5 percent in some years. The annual goal will be decided after comprehensively judging the world and domestic situations. The 5.3 percent was drafted comprehensively by the secretariat on the basis of various materials, and I feel it is all right.

Q: If there are anxieties about achieving the goal, what are the problems involved?

Komoto: There is the international situation. What will be the oil situation in connection with the Iran-Iraq war? Another question is the world economy. I feel that now is the worst time, because the oil price has climbed to quite a high level. The Organization of Petroleum Exporting Countries will be earning surplus funds totalling \$120,000 million in fiscal 1980 and probably about the same amount in fiscal 1981. The situation is that a small number of OPEC countries possess such huge funds and don't know how to use the money.

There are some people who say the price of oil will rise without any limits, but I don't believe the oil price will go up too much this year. The Government believes the hike will be about 10 percent at the most. Considered in this manner, I don't believe there will be many problems this year, although it can't be considered 100 percent safe.

Q: What about the American economy?

Komoto: The U.S. economy is now at the bottom and probably will recover to some extent this year. The outlook is that its current accounts will show a profit.

There are problems which will have to be solved in connection with Japan's economic growth. The stress must be on expanding domestic demand, particularly private demand. When the loan interest rate is high, as it is now, it is difficult to expand private demand.

A mobile credit policy becomes necessary. But in order to carry out the credit policy in a mobile manner, the conditions must be ripe, including international accounts, exchange rates and prices. These must be judged comprehensively, but there are no worries about the international accounts and exchange rates. As for prices, they will come down to a comparatively low level in February or March.

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The possibility is great that the inflation rate will come down to the five percent range and the conditions will be complete. Then discussions will be held by everyone centered on the Bank of Japan. The final decision will be made by the Bank of Japan.

The Government must create the objective conditions so that the credit policy can be administered in a mobile manner.

There is need to strongly promote a low-prices policy.

#### Public charges hike

Q: Isn't the hiking of various public charges being carried out as part of the financial reconstruction a contradiction of such a low-prices policy?

Komoto: It is quite easy to carry out the hikes in fiscal 1981 because the relative importance of public charges is low. In the case of fiscal 1980, it was calculated that public charges would account for 2.1 percent of the total hike in consumer prices.

In fiscal 1981, the total will be only 0.3 percent even if consumer prices, education costs, Japanese National Railways fares and postage are added. There is the commodity tax, which will have indirect, but not direct, effects. Even if this is added, the public charges will account for

about 0.5 percent. In fiscal 1980 there were the drastic hikes in gas and electricity charges. It will be easier in fiscal 1981 because there will be no such hikes.

#### Rationalization investments

Q: Does that mean that 1981 will be a good year, not only for the economy and economic growth, but also for prices?

Komoto: As a whole, it will be considerably better than 1980. The goal of a 5.5 percent hike in consumer prices will be fully attained. If prices do not go up, net income will be good. In fiscal 1980, net income showed a deficit, so that consumption was stagnant, but consumption will probably increase to a certain extent in fiscal 1981. A low-prices, low-interest policy will become possible.

Q: What concrete steps will you take to implement the low-prices policy?

Komoto: The economic principle is that prices are decided by supply and demand. A close watch will be kept on major materials which have a strong relation to national livelihood, and production will be increased when there are shortages. Fortunately, we have surplus production capacity in all fields.

That the Japanese economy is proceeding with comparatively little confusion even after the second oil crisis is because productivity is rising in indus-

try and energy conservation is being carried out.

Since the cost of resources and energy imported from other countries will go up in the future, the biggest problem facing the Japanese economy is to aggressively carry out rationalization investments in order to absorb such higher costs. Fortunately, tax reduction steps have been taken to promote investments in energy conservation.

Next, there are the fresh foods, which are closely tied in to the national livelihood. So we will take steps while maintaining close liaison with the Agriculture, Forestry and Fisheries Ministry. There are some price measures funds in the EPA budget for this purpose, but when it's necessary, we can also use the reserve funds.

Q: You are considered as someone in favor of economic growth, and after coming to the EPA you seem to be placing considerable stress on "stabilization of prices for the sake of growth" and on consideration for prices.

Komoto: A situation like that in fiscal 1978 and 1979, when economic policies could be carried out without worrying about prices, is desirable. From now on, we'd like to create a situation in which we can carry out our policies without worrying too much about prices.

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ECONOMIC

STRUCTURAL CHANGES BRINGING CHANGES IN OIL POLICY

Tokyo ENERUGI FORAMU in Japanese Dec 80 pp 28-35

[Round-table discussion on Japan's future oil policy: "This Month's Topic: A Look At [Japan's] Uncertain Oil Policy--Developments in Domestic and Foreign [Oil] Structural Changes Approaching a Turning Point"]

[Excerpts] Amid the current oil situation that continues to change qualitatively in the manner of the "Copernican" model, doubts are being raised on the present role of the "Petroleum Industry Law," which has been, since its promulgation in 1962, the basis of argument for [Japan's] oil policy, and also the "Administrative Guidance," which has freely supplemented the law. Even the Ministry of International Trade and Industry [MITI] has finally decided to act, when it recently organized the "Petroleum Industry's Basic Problem Study Group" within the ministry. [The discussants below] cite the problematical points in the uncertain oil policy and raise policy conceptions and their focal points that must be developed anew.

Round Table Discussants: X = a bureaucrat; Y = a critic; Z = a journal editor

Domestic and Foreign [Oil] Structural Changes Approaching a Turning Point

Journal: On 2 October, MITI finally organized the "Petroleum Industry's Basic Problem Study Group" within the ministry, to formulate an oil policy for the 1980's. What sort of problem awareness was involved in MITI's decision to review [Japan's oil policy]?

Changes in [Oil] Situation

X: It may be that the direct motive for MITI's decision to organize a study group of that nature originated from the fact that the oil situation has changed substantially since the days when the "Petroleum Industry Law" was enacted. The problem awareness lies in their attempt to clarify the various changes in the [oil] situation and in asking how to deal with these changes in the future.

One of the changes requiring study is the issue of "volume." The situation has now become such that not only the oil producers but also the consuming countries, as through IEA and others, are talking about mutual reduction in volume.

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Another issue related to volume is probably the emergency of alternative energy [sources]. We are now being pressed to ask, how will the oil "side" evaluate this, and how should oil be ranked within the total [framework of the] "energy" supply line?

Secondly, in connection with alternative "energy," how will the suppliers and consumers adjust the "gap" created as a result of changes in the supply-demand structure, where the suppliers are tending toward heavy quality [oil] and the consumers toward light quality [oil]?

Furthermore, as a third point, significant changes have occurred on the part of the supply "side." Prior to the Iranian Revolution the "majors" supplied nearly 70 percent [of all oil]; now their share is down to about 40 percent. Under such circumstances how should Japan go about procuring its oil? Is it enough to regard this question solely as a matter for the petroleum industry to solve, or should be, to a certain extent, regard it within the context of multiple trading firms and "users?"

Journal: In what manner, can it be said, is the structural situation, which cannot be handled by the existing petroleum policy nor within its [broader] framework, developing?

Y: For one thing, in terms of quantitative changes, the fact that [Japan's] economy has shifted from high to low economic growth shows that there has been some restriction in the area of oil supply, although I am not sure which [the low growth or the restriction] came first.

When we look at this in relation to the Petroleum Industry Law enacted in 1962, the demand for petroleum products will no longer grow as vigorously as it was thought in those days. This means that the targets of the so-called "Equipment Permit System," which has been the backbone of the Petroleum Industry Law, have begun to change.

In other words, the central proposition in the administration of petroleum has been one of maintaining the "principle of refining by consuming country" while at the same time allowing national [i.e., Japanese-owned] oil companies to hold at least 50 percent of the share. This has been possible through Equipment Permits, but it may no longer be the case in the future. Since [the Equipment Permit System] has been the major support of the Petroleum Industry Law, might not its operation and application become extremely weak?

If this [Equipment Permit System] is the major support of the Petroleum Industry Law, I believe that what will remain will be the setting up of petroleum supply plans and the "Notification System" of petroleum distributors and importers. [In other words], what were formerly never viewed as playing major roles in the law, only second or third in the list of priorities, would become the major targets of the industry law. Now the question arises as to whether these remaining legislative regulations can cope with qualitative conversions and changes in the area of supply.

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For example, there is the problem of "incentive oil" being developed by oil producing countries. [The "incentive oil"] says that crude oil will be supplied to those who cooperate in the countries' internal development. The crude oil will be supplied not only to petroleum companies but also to those who participate directly [in the development]. However, there is the problem that oil producing countries would be unwilling to give out oil, if that oil, which one wants to bring into Japan, is dealt with only through the Notification System of importers and distributors, since the oil producing countries dislike resale.

Also, when the oil producing countries wish to raise the added value of oil by building refineries locally and also wish to sell crude oil in combination with excess petroleum products, many of the present petroleum companies including nationals will have to rely on trading firms, since despite the presence of their own people purchasing the crude locally, they are still ill-equipped personnel-wise. When the trading firms bring the crude into Japan along with the petroleum products, then there is the possibility that a problem would arise as to whether, in light of the present Petroleum Industry Law, these items would be smoothly apportioned in the presence of petroleum companies, and distributed.

Should oil be brought into Japan more and more through the Notification System, will the oil administration authority be able to make smooth adjustments? It is questionable whether this situation can be dealt with in the form of the Notification System. If it is [to take the form of] the Notification System, then the situation would be handled through the by-law like operational standards in the form of "Administrative Guidance" and not on the basis of legislative standards. Even then considerable confusion may arise as to whether to accept the notifications when they pour in in great quantities.

As a matter of fact, this has surfaced already last year with the "naphtha" import petroleum, and I am wondering if the present industry law can effectively respond to similar situations in which [the authorities] are inundated with [notifications].

#### Unending Need for a New Policy

Z: Judging from the present status and characteristics of the oil industry and enterprises, I wonder if Japan, as a member of the "energy" industry [nations], can actually take a severe "do without oil" stand. Because of the innate weakness [of the oil industry and enterprises] or because they bear structural problems, my question is a realistic one.

Secondly, our Western economic structure, whether we like it or not is now entering a new age, sometimes referred to as "Oil Yalta Age" or "Oil Disarmament Age." If so, speaking in terms of freedom and "free-mechanism" of private enterprises and in terms of international relations, it is inevitable that the need to consider the problem of governmental "control" should become extremely heightened. Simply put, this is a matter of [choice between] "control" and "freedom."

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Another problem is that, no matter what people say, the power of oil producing countries in the 80's, and 90's will be overwhelming, and as long as we depend on their oil, the time will come when we must [learn to] think considerably ahead in our relationship with them. Already, trading firms and powerful "users" that have committed themselves to oil are considering how to deal with the "new majors" belonging to the oil producing countries; I believe this constitutes a major structural change. Unless we change our policy concept consciously in this regard, we will be, if not already, unable to cope with it.

#### Major Problematical Points in the Reexamination of Policy Industry Organization Theory-Like Approach

Journal: Amid this great transitional period in our "energy" policy, with regard to oil, how do we, in conjunction with our reviews of past policy formation, extract the adaptability from the public so we can meet the demands of such a transitional period and of a new age? Can it be said that such an energy industry organization theory-like approach should be overlooked as an important policy focal point?

X: In terms of security stable imports, it cannot be said that anyone can bring oil to [Japan].

In addition, since the oil situation has become extremely restrictive, we would like the petroleum industry not only to consider the petroleum [issue] but also develop along the line of supplying alternative energies. Especially, there are many [energy forms] which cannot be clearly distinguished as either petroleum or petroleum alternative energy; rather than quibble over how to classify these [forms], we should like the [petroleum industry] to seriously consider [the possibility of] transforming themselves into energy industries and become diversified. In terms of policy also, we must devise something.

Finally, there is the question of national or non-national [oil companies]. In the past, there has been a debate over whether it is good to have nationals to a certain extent, or whether we should depend on international majors, etc. However, in actuality, the majors have sunk considerably and nationals have emerged significantly. In the current way of thinking, that is, in the simple comparison between foreign capitals and nationals, there is not that much argument for absolute support of the latter.

Journal: The now famous remark of Trade Councillor Amano, the former Director of the Agency for [Natural Resources and] Energy, that, "A cat that fetches oil is a good cat be it a black or a white cat," indeed symbolizes the [period of] transition [in energy policy].

Z: Certainly, for a number of reasons, it is unpersuasive to think of the so-called national petroleum theory in terms of the opposition between foreign-capital majors and nationals backed by 100 percent Japanese capital. It is only that if we look at this from another angle, the foreign capital majors are increasingly building up their strength [even] in this oil crisis and increasing their vitality so they can develop into multiple energy enterprises.

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On the other hand, although we talk about profit margin by yen evaluation and so on, when we take a look at the characteristics per se of the so-called nationals, there are still problems [in their role] as the core of the oil industry that has various needs. It is all right if [the core] is made up of foreign capitals, but it just happens that the actual status of what we call nationals do have problems as the core of the oil industry which has increasingly come to bear heavy responsibilities. Something must be done about this in terms of their basic constitution, or they would not be able to develop vigorously as alternative energy or multiple energy enterprises. For this reason, it is true that there are problems in terms of policy as well.

In this sense, I believe that [problems] still remain with the theory of national petroleum industry. Such areas [as discussed above] will long remain if we look [at] the issues practically rather than as an antagonistic concept of foreign capitals vying against nationals. In fact, if we look around for an oil industry which is incapable of meeting social needs and the needs of the time, it will have to be the nationals.

Y: From the standpoint of Japan's involvement in international politics and economy, the U.S.-Japan relationship cannot be cut off so easily. Based on this premise, when we think of the Japanese oil companies--American oil companies, including the four companies in Saudi Arabia, have significant strength in procuring and supplying crude oil; and, in addition to the U.S. and Japanese oil companies there are the Anglo-Saxon British [companies]--if we look at the [Japanese companies] within the Japan-U.S.-Great Britain framework and within the historical current of the present, the way of thinking itself, which separates the foreign capitals from the nationals, is rather meaningless.

The problem, however, arises as in the case of Japan's boycott of Iranian crude oil which was set off when America last year broke off diplomatic relations with Iran. A major question in the future will be, to what extent can a broad consensus be obtained among the Japanese public when [as in the case of Iran] Japan's supply of crude oil is cut off along with America's, as if we were sharing the same fate.

Under a similar situation, Japan itself, in some ways, must be prepared with versatile ability to procure sufficient crude oil through diplomatic efforts. We cannot let ourselves continually be driven for a ride. We cannot feel secure in believing that as long as it brings oil a black cat will do. This means that there is need for Japan to have diversified routes rather than make distinctions between nationals and foreign capital.

#### Non-governmental Vitality and Administrative Guidance

Journal: The declining strength in the majors' ability to supply crude oil to Japan has conversely revealed weaknesses in the nationals' ability to supply oil; the gap has been filled by trading companies in the form of comprehensive responses to the needs of oil producing countries. As a result, in addition to the existing gap between refining and sales, the crude oil procuring disparity has become a major cause in increasing the disparity among the

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enterprises. Furthermore, the key point in the crude oil transactions with the oil producing nations is the question of how to respond to their [i.e., oil producers'] needs and no longer is it confined to simple transactions between petroleum companies.

Y: Concerning the ability to obtain crude oil, all those involved [in the oil industry], including the nationals must reflect on their failure a few years ago to foresee a drastic change in the distribution of oil imported from producing countries and from international oil capitals. However, it has happened and drastic developments are continuing; the present situation is that national oil companies too, are trying to strengthen their ability to supply crude oil and, in cooperation with trading firms that have diversified functions overseas, they are striving to reinforce their procuring ability.

Certainly, the trading firms have excellent ability, but why is it so problematic for Japanese oil companies to obtain crude oil through them. If the trading firms were to purchase crude oil directly, build their own refineries, and sell them, then the problem would change; it would be a problem that would involve the Notification System of petroleum importers and distributors. For example, if they are judged unqualified within the limits of Administrative Guidance, then the trading firms cannot enter [the market], and if judged sufficiently capable, they would be eligible to enter it.

But it is possible, by making notifications collective, to substantially transform [the trading firms?] into importers, as in the example of last year's petrochemical industry's Naphtha Mutual Oil Purchasing Company. There is no question that the functions of trading firms are excellent. In reality, however, it is uncertain, unless they examine it thoroughly, as to what extent the trading firms feel getting into major portions of domestic petroleum product market is beneficial to them.

X: I feel the same way. Especially, as a petroleum industry, they must consider even as far as the domestic distribution aspect. They must be responsible for oil storage against emergency. And when dealing in oil, they must think ahead so that in an emergency they can release the oil. If this is the case, I do not think that the trading firms, although they may be willing to bring the oil and fill the tanks, are interested in going so far as to operate the storage facilities and be responsible for distribution of oil in emergencies. It seems that this is one area where the [Petroleum] Industry Law is functioning well.

Journal: This problem in fact raises the basic problem of how to determine the role of Administrative Guidance, with regard to the application of the Petroleum Industry Law, in the future petroleum policy. Namely, the issue is, in an attempt to induce and utilize the functions of the trading firms, which hereon would include the unavoidable tripartite trading practice of combining crude oil and petroleum products, whether this can be done in the form of Administrative Guidance or by reviewing the [Petroleum] Industry Law itself.

Z: Our era certainly demands that two seemingly contradictory things be done at once.

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For one thing, from the point of Japanese international responsibility, we must provide a stable supply of oil within a stable [international] order. Also, we must by all means establish a good relationship between government and related industries so that the latter would be willing to comply with governmental guidance. There is, then, the need to reinforce the Administrative Guidance in the positive sense of the word and not in the sense of control.

On the other hand, in order to promote the strategy of relieving ourselves of petroleum, there is the need not only for existing petroleum related enterprises but also a wide range of Japanese industries with proven track records, to participate in the strategy. For this reason, allowing them to operate as freely as possible and giving them a wide range of opportunities to gain profits will, in turn, induce their vitality.

To a certain extent, we need the freedom to pursue, a little more frankly, the premise that energy is a money-making venture. In other words, we must direct ourselves to a new system which is equipped with these two points.

#### Conception Based on "Energy Industry Law"

Journal: In that case, as a part of Japan's alternative energy strategy, it is important in terms of strategic point of oil policy to develop unutilized heavy quality oil resources, whose utilization system has yet to be established. However, this would probably entail problems which cannot be handled within the framework of existing oil policy.

Z: Concerning the problem of the so-called "heavy oil," as a source, its availability worldwide is high; therefore, it seems that with Japan's advanced technology as a whole has the potential to convert a considerable amount of existing unutilized resources into those that can be utilized effectively.

Let us set aside the view for a moment that Japan will be able to secure its minimum requirement [of light oil]. Heavy oil, as an unutilized resource, including the fact that it is found outside the Middle East, should be treated and strategically viewed as the third party's oil and not as oil per se. We should think of it not as an oil resource of the kind we are used to, but as an unutilized source which can be used effectively by the world only with the technology and know-how of Japan, and one which cannot be the subject of worldwide "oil disarmament." It is this kind of thinking which I believe we must create worldwide.

I think that this can become a crucial strategic point in developing our country's future energy and oil policies.

Then, the important policy objective is the question, how much incentive should be given to the industries, public corporations and official agencies which will assume such a responsibility?

It seems that we must create a framework or a system that gives sufficient room for such pioneer [works] in [developing] new resources.

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Y: Is biomass-like new fuel oil included in that heavy oil?

Z: Yes, including such new fuel.

X: Then, it is necessary, conceptually, to convert from the Petroleum Industry Law to an "energy industry law" or something.

Z: Indeed, we can no longer discuss [the problem] in terms of oil alone. The "energy industry law," is an excellent concept.

An Issue of the Principle of Refining by Consuming Country

Z: Another thing to be considered is the fact that when national petroleum companies of oil producing countries emerge as majors, they naturally move into [manufacturing] and sale of [petroleum] products. When such time comes and if Japan stubbornly holds onto the principle of refining by consuming country and misses [the boat], then problems will arise. So, in order to consider dynamically how Japan can maintain smooth relationships with oil producing countries, it is necessary to reexamine thoroughly the existing Industry Law and the results of the Oil Administrative Guidance.

Y: That is correct. For example, suppose an oil refinery is built in an oil producing country and the country uses gasoline and intermediary fractions. Heavy oil would not be used for their own industrial purposes; instead they would use urea gas or natural gas. Since what would remain is heavy oil, it would be exported to Japan and other countries. In addition, liquefied coal gas, such as, gasoline fractions or naphtha-like [oil], perhaps including heavy oil-like products, would enter Japan.

If this is the case, since the so-called oil supply plan still remains as a regulatory objective of the Petroleum Industry Law, adjustments in the area of oil supply would be inevitable, as in the form of limiting the volume of gasoline from liquefied coal to such and such amount, from re-refined heavy oil exported from oil producing countries to such and such amount, and so with the volume of gasoline from domestic refineries. At this stage, it is possible that the oil supply plan under the Petroleum Industry Law will function again in a different form. Until that possibility emerges, the problem is whether we should abandon the supply plan as useless, since the equipment permits are not necessary, or set [the supply plan] aside until the day comes [when it will function again, though differently].

In crude oil transactions, including those of trading firms, some oil is extremely bad, some good. Unless such facts as these are considered and adjusted within the supply plan, it will be rather difficult to supply the products which fit the demand. Furthermore, when new fuel oil, such as that [produced] by liquefied coal plants, becomes the target of the oil supply plan, it would likely become an object, broadly speaking, of the oil refinery equipment [policy].

When these various factors are carefully considered, it would appear that the two major supports of the current Petroleum Industry Law might have a longer

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lifespan than expected. If this is the case, in the final analysis, the Petroleum Industry Law may on its own be able to include new fuel oils, without at once jumping into "energy industry law," although up to now only petroleum products and LPG have been its targets.

X: Frankly speaking, Japan is located at a great distance from the oil producing countries and yet it is a great [oil] consuming country. Because of this uniqueness, unless we hold onto the "principle of refining by consuming country," I have a feeling that a stable oil supply may be disrupted.

Y: That is most economical, and although relations with OPEC ought to be improved, we must, without doubt, firmly maintain such a base. Also, even if OPEC does move into the downstreams and [builds] refineries locally, it does not mean that a large volume of [petroleum] products would come out of them constantly; the increase would be gradual and the characteristics [of OPEC] would not change that drastically. As a base, then, [the principle] need not be changed. The system of refining [oil] in the consuming country fits Japan strategically and economically. I agree that adjustments should be made within this base.

Debates To Include Nationwide Participation

Journal: Finally, taking into account the discussion thus far, how should the oil policy be changed in the future? In the midst of increasingly unclear and uncertain [prospects for the future], and in terms of actively creating a new era of energy, what is important is, to bring out the vitality of the people who are the creators of the new era and nurture their creativity. To accomplish this, what problems do you see in terms of the direction which the oil policy should take?

Y: As a problem which is apparent today, I read the verdict on the recent case of the black market oil cartel. I understand that those engaged in the oil business had followed the Petroleum Industry Law and the Administrative Guidance instructions based on MITI's Establishment Law; however, another set of laws, called the Anti-trust Act, was in operation, and as a result, they [contend] that they were in fact subjected to a sudden [intrusion of] regulations. It seems that the petroleum industry was not aware of the situation from both ends; they were under the perception that the petroleum administration [regulations] came into existence after the anti-trust policies had been adjusted by the Fair Trade Commission and the MITI authorities.

When I think about the reason why such a misunderstanding arose, I believe that the provisions in the Petroleum Industry Law themselves are ambiguous and considerable portions of the law were left to the Administrative Guidance, and because of this, the problem arose.

It is apparent that if the Industry Law had specified that such and such a provision is left to the discretion of the Petroleum Administration, then the conflict with the anti-trust policy could have been avoided. It occurred

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because of the ambiguity, and as a result of the verdict it was recommended that from now on the petroleum industry should strive to maintain the difficult task of providing a stable supply [of oil] and prosper, while observing both the Petroleum Administration and the anti-trust policy. Although I am not from the petroleum industry, if I were in their position, I would be very confused as to which direction to turn to or where I should concentrate my business efforts, as perhaps they are. Crude oil must be purchased, profits must be secured and alternative energy [sources] too must be incorporated; and to accomplish all this there must be a shift in cost. Conducting business in the midst of these difficult problems while studying the two [sets of regulations] is like facing a triple hardship.

In this respect, it is necessary to clarify standards in order to provide Japan's stable supply of oil energy. However, we must take our time and examine whether the Petroleum Industry Law should become more specific and detailed and control-oriented or whether it should become more liberal. This, at present, based on the verdict of the black market cartel case, is the problem which we face.

X: The Administrative Guidance will be needed in the future as well, and when guidance is given it should be one which is capable of coping with new situations and one which can be accepted by everyone. The way of thinking with respect to the Petroleum Industry Law, and the merits and shortcomings of the Administrative Guidance in general must be considered separately. The oil problem is no longer the problem of the oil industry alone; it has now become a great issue common to the users, trading firms and the entire nation.

Another problem [to be considered] is that of alternative energy sources which will replace oil in the future. In this respect, since petroleum, too, must be considered from a more comprehensive perspective, the Petroleum Industry Law has taken on broad nationwide implications.

With this as background, we can frankly say that an approach to the Petroleum Industry Law must be sought out, one that everyone involved would be satisfied with.

Journal: Thank you very much.

(November 4)

[Insert on page 29]

On the Study of the Basic Problems of Petroleum

October 1980, Petroleum Department, Agency for Natural Resources Bureau (Objectives for Establishing the Petroleum Basic Problem Study Group)

The domestic and foreign situations surrounding oil are undergoing rapid changes and it is necessary to cope with such changes with appropriate policy responses in the future. For this purpose we have established the Petroleum Basic Problem Study Group (hereafter, the "study group"), which seeks to



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create a mutual consciousness [concerning oil] among those involved in the ministry and contribute to the planning and drafting of future petroleum policies by elucidating the various petroleum related problems which are now surfacing.

1. Problem Awareness

Amid domestic and foreign environmental changes concerning petroleum, how are supply and demand to be adjusted on long and intermediate term basis, and what kind of system must be created to achieve this?

2. Concrete Problems

(1) Problems in demand = 1) slowdown in demand, 2) demand for light quality [petroleum] (especially, increase in demand for intermediate fractions). 3) impact of introducing alternative energy;

(2) Problems of supply = 1) reinforcement of international controls (oil import targets), 2) evaluation of Japan's oil procurement ability (trading firms, participation by major users, bonus oil, etc), 3) evaluation of the majors (procurement ability, relationship with Japan, etc.), 4) oil producing countries' advances in downstream (con- signment refining, business participation, export of [petroleum] products, etc.), 5) trend toward heavy quality of procured crude oil;

(3) Study on related schemes and their operations = 1) principle of refining by consuming country, 2) control over the increase in [the number of] importers and the principle of actual demand, 3) import and export control systems, 4) tariff quota system, 5) foreign capital law, 6) petroleum import plan, 7) policy on heavy quality oil.

3. Focal Points of Study

(1) Through careful elucidation of the actual state of problems and mutual awareness of the same, contribute toward establishing a unified sense of direction for the future oil policy.

(2) The study will extend inevitably into evaluation of various schemes and systems; however, its immediate aim shall not be to recise or abolish a particular scheme or system.

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4. Procedures for the Study

- (1) The study group will begin its activities this September and continue for a year; three interim reports will be made between March and April next year.
- (2) Simultaneously, opinions will be exchanged with industries concerned.
- (3) Also, large-scale research projects will be commissioned to study the trends in overseas petroleum industries and long and medium term prospects for petroleum demands.
- (4) Furthermore, after the completion of the study at the ministry, it may be referred to other interested councils.

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ECONOMIC

OFFSHORE OIL-DRILLING RIG SALES EXPECTED TO RISE

Tokyo MAINICHI DAILY NEWS in English 3 Feb 81 p 5

[Text]

Japanese shipbuilders expect a steep rise in orders from U.S. oil explorers for off-shore oil-drilling rigs as U.S. President Ronald Reagan has lifted a freeze on domestic oil prices.

Industry sources said U.S. oil explorers, encouraged by a rise in oil prices after the lifting of the measures, are stepping up efforts to actively conduct off-shore oil development.

The sources said the move has appeared certain to help Japanese shipbuilders improve their earnings after being hard hit by the business slump for a long time.

Rig prices are very expensive and in some cases the building

of them will produce higher profits than that of ordinary vessels, they said.

The rigs are now in short supply in the world and almost all of those available were placed under operation last year, they said.

They also said the average daily charter charge shot up to \$95,000 last year as compared with \$21,000 in 1977.

They expect it to climb past \$100,000 this year.

At present, nearly 150 rigs are under construction around the world and they predict a demand for over 100 new rigs annually over the coming 10 years.

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ECONOMIC

AIRCRAFT INDUSTRY EXPECTED TO ENTER EXPORT FIELD

Tokyo MAINICHI DAILY NEWS in English 3 Feb 81 p 5

[Text]

The government is going all out to help the aircraft industry, an industry expected to make a great contribution to the expansion of Japan's exports in the future.

The help is being given as Japan's aircraft industry is entering a "takeoff period."

Japan leads the world in such industrial fields as automobiles and electronics but is still far behind other advanced nations as far as the aircraft industry is concerned.

Against such a background, both the ruling Liberal-Democratic Party and the Finance Ministry have allocated considerable sums of money to the aircraft industry in working out the budget for fiscal 1981.

The money was set aside for the development of new types of commercial jet aircraft and engines in projects involving Japan and other countries.

An official of Ishikawajima-Harima Heavy Industries Co. says the Japanese aircraft industry now has the opportunity to grow because the development of low noise and energy-saving aircraft is being demanded.

The domestic aircraft industry was barred from producing airplanes for many years after the end of World War II. The first commercial

airplane it produced in post war years was the YS-11 that could take off from a short runway.

A total of 182 YS-11 planes were manufactured before their output stopped in 1972 and 76 were exported.

The era of aircraft flying fast and carrying large numbers of passengers ended after the 1973 oil shock.

There have been moves for international joint projects to develop more efficient airplanes.

It is against such a backdrop that the government appeared willing to help the domestic aircraft industry.

An industry source says a large sum of facility investment fund is needed if Japan was to produce new aircraft and that it would take a considerable period to recover the money.

The production of aircraft requires advanced technology but airplanes have far higher added value than such export items as passenger cars and electronic computers.

The aircraft industry is considered the most suitable industry for Japan, which must rely on its technology for the expansion of exports in the face of scant natural resources at home.

The aircraft industry is also known for its resource-saving efforts.

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The amount of raw materials it used per employee in 1977 was only 64,000,000 yen in value, as compared with 15,700,000 in the case of the automobile industry.

Aircraft sales, including products of the space industry, in Japan in 1978 amounted to only about 310 billion yen, or one-twenty-fourth of those in the United States and one-fourth of those in France.

The amount was far less than that of the annual 3,200 billion yen sales recorded by Toyota Motor Co.

The Ministry of International Trade and Industry (MITI) wants to give positive assistance to aircraft production.

It believes that airplanes, together with electronic computers and atomic energy,

are one of the three major props for the development of technology in the 1980s.

Even the Finance Ministry, which is arguing for the reconstruction of the national finances by retrenchment measures, has made a liberal appropriation for the development of the aircraft industry in the budget for fiscal 1981—April, 1981 through March, 1982.

However, some foreign countries suspect that Japan is planning to develop its aircraft industry rapidly through government subsidy.

The British magazine Economist last year published a commentary warning of the rapid development of the Japanese aircraft industry.

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ECONOMIC

NISSAN UK PLANT SEEN SLOWING BRITISH LEYLAND RECOVERY

Tokyo ASAHI EVENING NEWS in English 2 Feb 81 p 4

[Text]

LONDON (Reuter) — In a crucial period for the British motor industry, Prime Minister Margaret Thatcher publicly backed the recovery of the state-owned British Leyland while assuring it stiff new competition from Japanese cars built in Britain.

A promised £990 million (\$2.4 billion) cash injection, announced by the Conservative Government on last Monday, virtually guaranteed the immediate survival of BL, the only British-owned volume car combine, motor industry sources said.

Then on Thursday the Government announced it would allow Nissan Datsun of Japan to build a plant in Britain which, by 1986, aims at an output of 200,000 cars to be sold throughout Europe.

The Japanese plant, which will provide 35,000 Britons with jobs, will represent the biggest single investment by Japan's car industry in Europe and will be the first in Europe run solely by the Japanese.

BL has been Britain's industrial cliffhanger for a decade but now, with bright new models and Government cash, it hopes to become profitable in 1984 or 1985. In announcing the aid, spread over two years, Industry Minister Sir Keith Joseph removed doubts over the monetarist conservative Government's commitment to BL's recovery.

The new Mini Metro, launched in Britain in October, has been a big success, pushing BL's domestic market share from 15 to 21 percent. This compares with Japan's current 11 percent share.

Stiff foreign competition has been a main cause of BL's problems, with one Briton in two now preferring to buy from Japan, Germany, France and Italy.

Prof. Krish Bhaskar, an expert on Britain's car industry, sees BL in the late 1980s with an 80,000 workforce and a capacity of one million cars a year.

It will not, he says, be in the world big league of companies making over two million cars and will need a further £500 million (\$1.2 billion) from the Government by

1985 just to survive.

But BL Chairman Sir Michael Edwardes now sees BL as a possible success story and even an eventual object lesson for the ailing British economy.

Production of the Metro, successor to the world-selling mini, is nearing 6,500 a week and the European launch is due this spring.

Later this year will come the bounty, a joint venture with Japan's Honda with hoped-for sales at 80,000 yearly, and in 1983 a new five-door hatchback followed by a new car aimed at the company fleet market.

The Honda deal, together with Peugeot-Citroen's takeover of Chrysler's British plants, had aroused some fears that BL would eventually fall under foreign ownership.

Britain's market leader is American-owned Ford and its third-ranking carmaker, Vauxhall, is owned by General Motors.

At Longbridge, BL's biggest plant, the company this year expects to see productivity on its automated Metro assembly line equal German and Japanese levels for the first time.

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ECONOMIC

NISSAN PLAN TO BUILD CARS IN UK VIEWED AS REALISTIC

Tokyo ASAHI EVENING NEWS in English 2 Feb 81 p 5

[Editorial]

[Text]

The Nissan Motor Co., which created a stir recently by forming an affiliation with Volkswagen of West Germany, is to conduct a feasibility study on constructing a passenger car plant in Britain.

In Britain, the Minister of the Industry, Norman Tebbit, told the House of Commons that the British Government approves of the project, and the Conservative, Liberal and Labor parties have, in principle, welcomed it. If the results of the study are satisfactory, Nissan Motor will begin constructing the plant next year and will begin production late in 1984. The goal is to produce 200,000 cars a year by 1986.

The automobile industry of the world is in the midst of an upheaval. To resuscitate the ailing British automobile industry, the Thatcher Administration has taken a number of measures in rapid succession. It has decided to invest an additional £1.1 billion in BL Ltd. (formerly British Leyland), Britain's state-owned top carmaker. Nissan Motor's announcement came three days after this was decided. The British Government hopes that the building of an advanced factory owned by a Japanese company in Britain, where development has been held back, will, by stimulating competition, reactivate the economy.

The project is also very significant for Japan, too. Because of the serious recession in their automobile industries, the Western European nations have become increasingly unhappy about the success of imported Japanese cars. The high-level consultations between the European Community and the Japanese Government ended inconclusively here a few days ago, and the EC secretariat is very dissatisfied. In consequence, Nissan Motor's new project, which was decided on in response to calls made by the British Government, is expected to help ease trade friction and to make Japanese-European relations more diverse than before.

Japan's automobile industry is extremely dependent on exports. Of the 11 million cars produced last year, 5,960,000, or more than half, were exported. Such a high rate of dependence on exports is unparalleled elsewhere. Because of such changeable factors as exchange rates and import controls, too great a dependence on exports is undesirable; so the Japanese automobile industry must gradually change its constitution so that about 70 percent of its automobiles are produced in Japan, and about 30 percent overseas. Nissan Motor's project is a step in the right direction.

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Nevertheless, there are certain to be complications before this project gets on the right track. In its feasibility study, Nissan Motor will look into the competitiveness of Britain's parts industry in the matters of price, quality and deliveries, and into the question whether a sound labor-management relationship can be maintained. The opposition of many Britons, which was exemplified by the catcall "We have sold our country to the Japs" made by a Labor Party legislator in the House of Commons, and the misunderstanding of Japan that is so deeply rooted in Europe should not be ignored.

In Britain, however, there is the example of Sony Corporation's plant in South Wales. The plant was built seven years ago, and today it is producing 150,000 color television sets, half of which are exported as British products, a year. The Japanese style of management, in which there is no differentiation between clerical and manual workers, was acclaimed by the employees, and the Order of the British Empire was conferred on the Japanese manager of the plant. As a result of this, it has gradually come to be understood that even foreign enterprises can contribute to regional development, relieve unemployment and bring in foreign exchange, and the old allergy to Japanese enterprises is fading.

There is, however, another precedent: Chrysler advanced into Europe but its attempt eventually ended in failure. Nissan Motor has embarked eagerly on an international strategy. Its enthusiasm is laudable, but problems pertaining to capital and personnel may betray this enthusiasm. It may be important for it to steady itself here and strengthen its foundations. Before long, the world's makers, led by General Motors, will be seriously competing to sell small cars.

Japanese automobile companies should be well aware that they are the axis of an international reorganization. They must renounce self-centered policies, fit into the localities into which they advance and adopt a policy of restoring profits to the nations in which they are operating. (Jan. 31)

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ECONOMIC

NEED TO BUILD CARS ABROAD SEEN

Tokyo THE DAILY YOMIURI in English 31 Jan 81 p 2

[Editorial]

[Text]

Nissan Motor Company's plan to produce cars in Britain coincides with Thatcher Government's efforts to cure the so-called British disease. We strongly hope the Nissan plan, which fits in the automaker's global strategy, will succeed in order to also help alleviate economic friction between Japan and the European Communities (EC).

The most important issue in the Japan-EC consultations held in Tokyo on January 28-29 was Japan's growing car exports. Japan was forced to promise to slow down its car exports to West Germany and Benelux countries which place no import restrictions on Japanese cars. And on January 28 International Trade and Industry Minister Rokusuke Tanaka assured US Ambassador Mike Mansfield that Japan would continue its self-restraint on car exports to the US.

#### Political Pressure

It seems that Japanese car exports are being restricted in many countries out of political consideration. The US and West European nations are asking Japan to continue the current self-restraints until their auto industries can recover from the sluggish business. But our experience shows their requests are hard to believe. It is becoming quite evident that Japan has no alternative but to produce cars in foreign countries to overcome the current trade difficulties.

Japanese carmakers are being increasingly approached by US and European automakers for assistance. In this respect Nissan seems to be very bold compared with Toyota Motor Company.

Some observers think that Nissan might be spreading itself too thin. But we think that Nissan management is confident its success.

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We hope that Toyota, which is negotiating with Ford on a possible business tie-up, and Mitsubishi Motor Company, which has been requested to help Chrysler, will make up their minds soon in consideration of the Japan-US relations. This is a responsibility of companies which have attained a global status.

**Major Problems**

Nissan President Takashi Ishihara believes that major problems the project might face are availability and quality of locally-made parts and securing cooperation of union workers, which is very necessary for any project to succeed in Britain.

One of the causes of the British disease is the attitude of unions and workers and their opposition to introduction of modern machinery. But experience of Japanese enterprises operating in Britain shows that it is possible to overcome all the problems. It all depends on management.

If this is true then one can easily presume that the British malady has been caused by cowardliness of management and actions of politicians rather than by labor.

One of the aims of Prime Minister Thatcher to invite Nissan to Britain is to give new life to management. In this sense Nissan's project is very interesting.

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ECONOMIC

# NISSAN TO CONSTRUCT AUTO PRODUCTION PLANT IN BRITAIN

Tokyo THE DAILY YOMIURI in English 30 Jan 81 p 1

[Text] Nissan Motor Company, the second largest automaker in Japan, Thursday decided to build a plant in Britain to produce passenger cars following an invitation to do so by the British Government.

Nissan made the decision after reaching a final agreement with the British Government on the undertaking.

The British Government had been urging Nissan, which occupies the largest share of the British car market among Japanese automakers, to manufacture automobiles in Britain as a means of mitigating criticism over increasing exports of Japanese cars to Britain.

Nissan's decision is also in line with its present international strategy aimed at meeting head-on the keen competition in the world's small car market.

Nissan will become the only Japanese automaker to build a plant in Europe without entering into a joint venture.

According to the agreement between Nissan and the British Government, Nissan will start constructing a passenger car production plant with an eventual annual capacity of 200,000 cars in Wales, possibly this year.

Nissan plans to manufacture cars of the front-engine, front wheel drive (FF) type at the plant.

The number of passenger cars sold in Britain last year was only a little over 1,510,000, a decrease of 200,000 from the previous year, due to the business recession and other factors.

Of this number, imported cars accounted for 57 percent with Japanese cars occupying 11.9 percent of the market, exceeding the 11 percent ceiling set in a "gentlemen's agreement" between Japanese automakers and the British Society of Motor Manufacturers and Traders (SMMT).

Consequently, criticism against Japanese cars is mounting in Britain and there are also moves to restrict imports of cars from this country.

As the biggest Japanese car exporter to the British market, Nissan sold Britain 92,000 cars in 1978, 111,000 in 1979 and 103,000 in 1980.

The earnings of the British automobile industry have deteriorated because production costs have soared due to labor disputes, while at the same time the industry has been trying to cope with the ever-increasing

influx of Japanese and other foreign cars.

British Leyland (BL), Britain's largest automaker, has been financed by the British Government and now is carrying out its rehabilitation as a national enterprise. But it produces only about 400,000 vehicles annually, a figure corresponding to the output of a small or medium-sized Japanese maker.

Nissan is the second Japanese automaker to begin car production in Britain. Honda Motor Company is scheduled to begin production of cars in Britain this summer in collaboration with BL.

Honda plans an annual production of 85,000 small cars that it has developed and sell them under the BL trademark in Britain and the European Communities.

But the British Government considered this insufficient to rehabilitate the British car industry and urged Nissan to build a plant in Britain.

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U.S. Not Seeking Curbs

Washington (Kyodo)—The Reagan administration is not yet ready to seek legislation from Congress to impose restraint on auto imports from Japan, US Transportation Secretary Andrew Lewis said Wednesday.

Lewis told reporters that the Reagan administration advocates a free trade system and that its policy does not call for trade restriction.

He added, however, the door will be kept open for taking any import restriction measures if they are necessary.

Lewis said that he had been appointed chief of a task force to look into the problems of the US car industry.

The special group also included Treasury Secretary Donald Regan, Commerce Secretary Malcolm Baldrige, Labor Secretary Raymond Donovan, chief trade negotiator William Brock and Murray Weidenbaum, chairman of the president's council of economic advisers (CEA), he said.

The group is scheduled to visit Detroit to exchange views with auto executives, labor leaders and other leading local figures this week or later, Lewis said.

He blamed difficulties in the US auto industry on heavy taxes, swollen government expenditures, high money rates and overly strict official restraints, but did not refer to imported autos.

In replying to a question on relations between auto imports and unemployment, Lewis said if investments increase to reconstruct the auto industry, unemployment may still rise due to reduction of labor needs by the investments.

He said, in principle, he is in favor of safety and emission standards but the period of the regulations may be changed.

Lewis said the Reagan administration would honor the \$1.5 billion financial aid commitment to deficit-ridden Chrysler Corp made by Congress and the Carter administration.

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ECONOMIC.

NISSAN UK VENTURE TO PROVIDE 5,000 JOBS

Tokyo MAINICHI DAILY NEWS in English 1 Feb 81 p 3

[Text]

In formally announcing its decision to conduct a feasibility study on building a passenger car plant in the United Kingdom, Nissan Motor President Takashi Ishihara said at a press meeting held early Friday morning that Nissan's single-handed U.K. venture will provide jobs for about 4,000-5,000 workers directly and about 30,000 workers indirectly, thus alleviating the depressed and unemployment-plagued British motor industry.

Ishihara said the decision was made following its agreement with the British government. The feasibility study is to be completed in four months.

Nissan's plan, subject to study, is to start building an automobile manufacturing plant, including an engine manufacturing facility, in a government-designated development area or special development area in the U.K. in 1982 and to begin production at

the end of 1984, reaching the eventual goal of 200,000 units a year by 1986.

Nissan said there are three candidate plant sites among the development and special development areas. The size of the site will be about 800 acres (3.24 million square meters).

The Nissan president said that most of the U.K.-made Nissan (Datsun) cars will be sold in the U.K. through the locally-capitalized Datsun U.K. and other distribution systems.

Ishihara said the U.K. venture will employ about 4,000-5,000 workers directly and about 30,000 workers indirectly to help out the depressed British motor industry which is plagued with unemployment.

Ishihara said investments will be in excess of 100 billion yen and will be financed by its own funds and corporate bonds. The amount excludes the cost of land but includes British government subsidies to the development and special

development areas. By British law, the development area obtains a subsidy of 15 percent of the investment required to acquire the fixed assets, excluding land, and the special development area, 22 percent. The 100 billion yen investment will be the single largest investment made abroad by Nissan.

The president of Japan's second largest automaker said Nissan plans to achieve a very high local content involving U.K. and other European Community component suppliers. He said, "The rate of local procurement at the start of production is targeted at 60 percent and this would be increased to 80 percent as soon as practicable after full production is reached.

"Two matters of special importance in Nissan's decision making will be the competitiveness of local component manufacturers and the prospect of establishing a good structure for industrial relations," Ishihara stressed.

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ECONOMIC

NISSAN TO PROPOSE AUDI 80 PRODUCTION TO VW

Tokyo MAINICHI DAILY NEWS in English 2 Feb 81 p 1

[Text]

Nissan Motor Co. President Takashi Ishihara said that Nissan intends to present Volkswagenwerk A.G. with a plan for producing about 5,000 units of the Audi 80 passenger car per month in Japan.

He said he will make the proposal when he calls on VW Chairman Toni Schmucker after attending a Lisbon meeting.

Ishihara made the remark just before his departure for Anglo-Japanese automotive talks in Lisbon, Portugal, on Feb. 3 and 4.

The Ishihara-Schmucker meeting is expected to discuss the production in Japan of one of the VW group's passenger car models. The production start-up is tentatively set for the summer of 1982.

When Nissan and VW announced their tie-up last December, both automakers agreed to select the Japan production model out of either the Audi series passenger car models of the Audi-NSU Autounion, a VW group company, or of VW's Passat series.

Nissan selected the Audi 80 model, a 1.7-liter car, as its first choice. VW is expected to accept the Nissan choice.

Nissan believes it appropriate to start production with 5,000 units per month or 60,000 units a year. VW originally projected a 200,000 unit production in Japan per year, including 150,000 unit exports to Southeast Asia.

There is still a considerable gap between Nissan and VW but there is also a very high likelihood of a compromise. A VW source in Japan disclosed

that there are no indications at all in the working-level talks that might retard the tie-up.

Currently, Nissan's Zama plant is being considered as the production site. The Zama plant in Kanagawa Prefecture is producing the Datsun Sunny and Nissan Silvia passenger cars.

There is still a possibility, however, that another plant in the Kanto Plain will be the production site. In any case, Nissan intends to assemble the VW car at one of the existing plants.

Nissan and VW have tentatively agreed to expand the scope of their collaboration to the joint production of passenger cars in West Germany and the United States, together with the conclusion of a cross-licensing agreement.

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ECONOMIC

GROWTH OF COMPUTER INDUSTRY DISCUSSED

Tokyo THE DAILY YOMIURI in English 28 Jan 81 p 3

[Text]

Fujitsu, Japan's top computer maker, brags that it now has a commanding lead over IBM Japan in sales to the Japanese market. After squeaking past IBM's computer sales of \$1.6 billion in 1979, Fujitsu expects computer revenues to rise about 15 percent to \$1.85 billion in the year to March, 1981. IBM Japan estimated this month that its sales were up a mere 3 percent or so, to about \$1.67 billion, in the year that ended December, 1980.

"Gradually, the difference will be enlarged," says Yukimaro Kawatani, chief planner for Fujitsu's domestic sales of computer systems. His company is now basking in the publicity of predictions that it will increase its ascendancy over other competitors including IBM in Japan, the only computer market outside the US where local makers account for most of the sales.

Fujitsu's claims are exaggerated. The big three Japanese computer firms—Fujitsu, Hitachi and Nippon Electric (NEC)—are still too evenly matched to allow one company to break away from the pack. And Fujitsu's boast that it has permanently overtaken IBM seems premature, even though its sales growth (like that of Hitachi and NEC) has outpaced IBM's in Japan for several years.

Fujitsu owes much of its success to sales to the public sector and to the Japan Electronic Computer Company (JECC), a leasing firm financed with cheap loans from the publicly-owned Japan Development Bank. JECC pays on the nail for computers; manufacturers put aside reserves to buy back machines returned to JECC by users. Hitachi, by contrast, has almost weaned itself from JECC.

Dependence on JECC has cut Fujitsu's profits, but it gives the company, which relies far more than other local makers on computers, the cash flow to invest in semiconductor research and production. In 1979, Fujitsu made after-tax profits of \$80 million on sale of \$1.6 billion, while IBM Japan earned \$180 million with similar sales. Add in reserves that Fujitsu has built up against the risk of a spate of computer returns and Fujitsu's profits would have been \$165 million.

A survey published in Tokyo this month puts IBM's share of the value of installed computers costing over \$2.5 million at 44 percent. But IBM's weaker hold on the exuberant market for small computers has slowed its growth in Japan. So have fierce local competition on technology and pricing.

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Fujitsu asserts that its three-year-old high-powered computer, the M200, is faster than the new IBM 3081 announced last November, thanks to better chips inside it. But it is working hard to complete work on a new machine designed to respond to IBM's expected announcement of a bigger brother to the 3081. Fujitsu will unveil this, its latest challenge to IBM, in six months or so. Hitachi says its challenger may be ready early in 1982.

Japanese makers have matched IBM's price cuts too. An industry observer at the Industrial Bank of Japan says that the top firms lowered prices by as much as 40-60 percent in the mid-1970s to persuade companies replacing their IBM machines to plug in compatible Fujitsu and Hitachi machines. But IBM sounds anything but defeatist. It reports strong orders for its new 3081, and this month's Computopia survey shows that in 1980 IBM pushed up its share of installed computers worth over \$2.5 million at about the same pace as Fujitsu and Hitachi.

Fujitsu's computer sales of \$1.85 billion in the year to March, 1981, will be ahead of Hitachi's and NEC's (roughly \$1.25 billion each). It keeps its lead because it is an all-rounder while Hitachi is weakish in the market for medium-size computers and NEC in the market

for the most powerful ones.

Both of Fujitsu's main native competitors are trying to strike back. NEC aims to overtake Fujitsu in computer sales by 1984. To improve its standing in the market for bigger computers, it last autumn unveiled the ACOS 1000, which it describes as the world's most powerful central processing unit for scientific work—more of a prestige project than a profit-earner.

Industry insiders expect much of NEC's growth to come instead from exports of medium-sized computers, which it began to sell through an American subsidiary two years ago.

The company has announced a plan to set up a computer export group with a goal of raising computer exports by five times in five years, to \$375 million, and doubling the share of exports in total sales to 12 percent. Hitachi wants soon to increase its share of exports in total sales, now under 10 percent, to 20 percent—matching Fujitsu's bigger overseas sales effort.

Although Japan's computer exports have risen fast for some years, they are still dwarfed by home sales. And one-third of those fast growing exports—about \$250 million of 1979's overseas sales of \$750 million—were shipped by IBM Japan to other parts of the giant multinational's operations.

The Economist

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SCIENCE AND TECHNOLOGY

NATION WILL SEEK REVIEW OF U.S. NUCLEAR POLICY

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 1

[Text]

With the start of the new Reagan Administration, the Japanese Government is going to move out actively to induce the U.S. to review the Japan-U.S. joint statement of September, 1977 which "fetters" it in carrying out its atomic energy policy.

Informants said that a Government negotiating group may visit Washington as early as in March to undertake a review with American authorities.

The joint statement issued at the time of the past Carter administration restricts reprocessing of spent nuclear fuel which is essential for Japan in order for it to create its own nuclear fuel cycle.

The Japanese Government considers that this joint statement not only makes difficult the future operation of Japan's first nuclear fuel processing plant at Tokai Village, Ibaraki but is a big obstacle in carrying out its

hope to construct another reprocessing plant.

From such a standpoint, it is expected to ask the U.S. to:

—Lengthen the operation period of the reprocessing plant on a full-fledged, formal basis.

—Agree to a big increase of the reprocessing amount of spent nuclear fuel.

The joint statement of September, 1977 provided that the amount of spent nuclear fuel to be reprocessed within Japan in next two years would be kept to a total of less than 99 tons.

The Japanese Government actually has wanted to have right to reprocess all of the spent nuclear fuel as its basic policy.

Japan, however, agreed to such a limitation of reprocessing as the Carter administration at that time had embarked on a strong anti-nuclear proliferation policy.

After this, the period of operation of Japan's spent nuclear fuel reprocessing plant provisionally was prolonged from the original "two years" and

now has been extended to the "end of May, 1981."

With the full-scale operation from January, this year of the reprocessing plant, the U.S. agreed to increase the total amount of spent fuel to be reprocessed from the original 99 tons to less than 149 tons.

However, the Japanese Government considers that a review of the Japan-U.S. joint statement has become a "must" since with the full operation of the Tokai Village reprocessing plant from January, even the higher ceiling of 149 tons stands to be surpassed around this summer, and private interests which plan to set up a second reprocessing plant now have established a new company for it and hope to have it start operations around 1990.

The Japanese Government feels the Reagan Administration will be more flexible in thinking than the past Carter government as to such building of another reprocessing plant.

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SCIENCE AND TECHNOLOGY

DEVELOPMENT ASSISTANCE TO DOUBLE IN 5 YEARS

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 1

[Text]

Japan's official development assistance (ODA) in the next five years is going to reach over \$21.4 billion.

The Government last week made a formal decision on the following points:

—The total of ODA, on a dollar base, during the five years from 1981 to 1985, will be at least double (\$21.4 billion) the amount for 1976-1980.

—The budgetary amount of ODA in the general account budget for the period from 1981-85 will be more than double that for the total of the past five years.

According to the Government's estimate, the total of ODA in the five-year period from 1976-80 ran to about \$10.7 billion, and doubling this will reach \$21.4 billion.

In order to attain the \$21.4 billion target, it will become necessary to put the average yearly growth of ODA in the period from 1981-1985 at 8.7 per cent.

However, if in this period on a dollar base, the average growth of GNP reaches over 8.7 per cent, the ratio ODA to GNP in the final year of 1985 will become lower than the 0.31 per cent for 1980.

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SCIENCE AND TECHNOLOGY

IHI, TOSHIBA PLAN JOINT DEFENSE DEVELOPMENT

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 6

[Text]

Ishikawajima-Harima Heavy Industries Co. and Toshiba Corp. have started to study plans to jointly develop defense equipment technology, it was learned recently.

No specific details have been disclosed, but both IHI and Toshiba are expected to exchange their technology while IHI tries to get an order to build missile-equipped escort ships (DDG) from the Defense Agency and Toshiba to expand their business beyond missiles.

At present IHI dominates the aircraft engine market in the defense industry, but would like to expand also their warship department. They keenly desire to get an order to build 4,500-ton class DDGs the Defense Agency plans to procure in the foreseeable future.

In the past, Mitsubishi Heavy Industries, Ltd. has received all orders to build 3,000-ton

class DDGs, but IHI hopes to penetrate this field and take away from Mitsubishi orders to build the next DDGs including main turbine engines.

Officials of the Defense Agency's Equipment Bureau said orders went to Mitsubishi in the past because they were superior to other companies in terms of overall technology to build DDGs, which requires very high level of technique.

IHI enhances their chances of getting DDG orders by taking advantage of Toshiba's high-level electronics and missile technology.

On the other hand, Toshiba is gradually expanding their field of business from communications to missiles and to some other fields. Toshiba has already developed by itself short-range surface-to-air missiles which were the focus of harsh debates in the Diet some months ago. Last year Toshiba was assigned a task to

do maintenance work on electronics equipment of early warning aircraft E2Cs.

Toshiba's next business interest lies in naval equipment. Thus it will do Toshiba good if they cooperate with IHI, a warship maker giant, to expand their business to "the sea" because they have had a long business relationship in the field of heavy electric machinery. Nippon Electric Co. is ahead of Toshiba in the electronic equipment field for naval warships.

At present in the defense industry, Mitsubishi Heavy Industries receives almost 20 per cent of all orders annually, leading other makers by a substantial margin.

So far Hitachi, Ltd. also agreed with Nissan Motor Co. to cooperate in developing rockets, and with the IHI-Toshiba rapprochement, there will be a major realignment of companies in the defense industry in the near future.

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SCIENCE AND TECHNOLOGY

AUTOMATION DEVICES USED TO CUT PHONE COSTS

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 13

[Text]

Many makers of computers and office equipment have managed to reduce their postal and telephone expenses greatly in a drive to whip up wider demand for office automation (OA) by installing the OA devices they make in their own companies and inducing others to follow suit.

Ricoh Co. for two successive years has effected a net reduction of such communication expenses from that of its preceding business year, and is now striving to achieve a "three year minus in a row."

Nippon Electric Co. (NEC), by installing electronic telephone exchanges and other OA devices, in fiscal 1980 is certain to attain a yearly economization of ¥300 million, with Fujitsu Ltd.'s saving due to reach ¥200 million.

This is considered to represent extremely rare cases of such expenditures coming down when they normally can be expected to keep soaring from expansion of an enterprise's activity and its greater reliance on information systems.

As for these makers of computers and OA equipment, they are intending to publicize their economization achievements widely to induce their customers also to employ such

equipment they make.

Ricoh started its drive to reduce its communication expenses in fiscal 1978 by setting up a special committee of experts representing a cross-section of its company's operation.

It started out by actively incorporating facsimile equipment and developing an efficient inter-company phone network.

From such work, it cut down its communication expenses, which had attained a peak of ¥692 million in fiscal 1977, to ¥686 million in fiscal 1978. While the amount was small, it reduced this again to ¥683 million in fiscal 1979, and it is certain that a further cut will be achieved in fiscal 1980.

In the case of Nippon Electric, it began systematizing its inter-company phone network by incorporating electronic exchanges from fiscal 1980. It has now become clear that its communications expenses which had run to ¥1.6 billion in the past fiscal year, will be sheared by ¥300 million in the current fiscal year ending March.

Fujitsu, by similar streamlining of its communication systems, is expected to curtail its communication expenses by ¥200 million in the current

fiscal year to about ¥1.8 billion.

Both NEC and Fujitsu say that it is the first instance for them, excluding times of recession, to reduce their communication expenditures.

As for Hitachi, Ltd., Matsushita Electric Industrial Co., Canon, Inc., Nippon Univac Kaisha, Ltd. and Sharp Corp., they also have been able to hold down the growth of their communication expenses which had risen at a two-digit rate yearly up to fiscal 1977, to a one-digit gain from fiscal 1978.

At a time when the nature of enterprise operations has been expanding and inter-company communication traffic has been swelling, it has been extremely difficult to achieve a net cut of communication expenses or to keep such expenses unchanged.

Moreover, from the end of 1976 and from the spring of 1978, telephone charges and that for use of leased lines, each have gone up by around 20-40 per cent.

In considering the raising of virtually all communication charges in a period of "minus growth," many feel that the economy in expenses attained by these companies merit attention far more than the figures themselves show.

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SCIENCE AND TECHNOLOGY

TOTAL QUALITY CONTROL CONCEPT EXTENDED OVERSEAS

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 13

[Text]

Japanese enterprises are moving actively to popularize the total quality control (TQC) system, one of the representative business methods practiced in Japan, also in their subsidiaries overseas.

TQC is a method in which all sectors and all employees of an enterprise participate in finding ways to improve quality of products, sales and other business through quality control (QC) circles.

Enterprise groups in Japan already are using the system by having their subsidiaries and subcontract firms also participate in it and are enjoying much results in improving their business.

The moves to spread the system to the overseas subsidiaries of the enterprises indicate that the Japanese companies have started to grapple with the task of strengthening the foundation for their activities as international enterprise groups to cope with the internationalization era.

Fuji Xerox Co., a major maker of copying machines, started recently to extend guidance to its joint ventures and five sales firms in Southeast Asia on introduction of the TQC system.

The company plans to implant the basic ideals of TQC in its subsidiaries abroad not only to improve the quality of their products but also to correctly grasp the needs of the local markets.

It had set up QC circles in its plants in Taiwan and South Korea up to now.

It plans in the future to employ the TQC system also to the management and sales sectors not only the production division.

Kayaba Industry Co., a major oil hydraulic equipment maker, is having its subsidiaries in Taiwan also engage in QC circle activities.

Representatives of the subsidiaries in Taiwan participated in the QC circle meeting of the company held late last year and announced that the quality of the products has been so improved as to

enable them to be approved without question by the authorities for export.

Managerial officials of subsidiaries in Thailand and Indonesia also attended the meeting as observers.

Kayaba Industry plans to use the TQC system in its subsidiaries in Thailand and Indonesia in the future also.

The TQC system is being introduced by the Japanese enterprises not only in their subsidiaries overseas.

Komatsu, Ltd. started to extend guidance on TQC from several years ago to eight companies overseas with which it is in capital tie-up and succeeded in improving their management.

The companies include N.V. Komatsu Europe S.A. in Belgium, Komatsu's sales firm in Europe, and Komatsu Brasil S.A., a local production firm.

Sanwa Bank has started to organize QC circles in New York, San Francisco, London and other branches in the U.S. and Europe in addition to existing ones in Hong Kong and Singapore.

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SCIENCE AND TECHNOLOGY

AUTO ENGINES OF FINE CERAMICS PLANNED

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 16

[Text]

Toshiba Corp. has decided a long-range policy to commercially develop, in the next five to 10 years, new automobile engine-making materials out of fine ceramics.

Fine (new or engineering) ceramics, whose development is more advanced in the U.S. and some other European countries for application to auto and aircraft engine, electric power generating gas turbine and other important industrial machine-building purposes, have also come to be energetically developed since early 1980 by many Japanese companies led by Toshiba and Asahi Glass Co.

In addition to their outstanding freedom from corrosion and greater heat resistance, compared with corrosion-prone and less heat-resistant metals, alloys, or plastics, fine ceramics have become resistant enough to rapid temperature changes, that is, heat shocks, as an ideal new group of industrial materials.

Toshiba has a nuclear engineering, automobile parts and many other business lines. The company has been making it a long-range research and development theme to develop various new materials to withstand high temperatures and corrosion.

Thus, it has chosen fine ceramics as what it considers one of the most promising groups of high-efficiency inorganic materials, organizing a special project team to develop new products out of them.

The team is made up of experts of Toshiba's Metal Products Division, Research and Development Center, and Manufacturing Engineering Laboratory. Early in 1980, the corporation made known its success in the development of its own silica-reduction, direct nitridation method to produce a very pure and non-granular powder form of silicon nitride, considered to become the mainstay of all sorts of fine ceramics in Japan's industrial terms.

From those powders, the corporation has already commercially developed and put on the domestic market various high temperature-resisting industrial tools, including non-metallic dices. But it has found the local market for such products too small — only several million yen a month as its experts have figured —, considering its attempt in the area as only a modest beginning of its entry into Japan's burgeoning new ceramic industry.

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That is why it has switched its attention to development of new automobile engine materials out of its new ceramics. It had once considered a second stage in its new ceramics development plan, in its belief that the new materials could go a long way in helping step up the automobile industry's most important current drive to save energy consumption. It envisions arousing of wide Japanese industrial recognition of new ceramics by successful application of such ceramics to automobile engines.

To develop a adequate automobile industry market for its silicon nitride or other fine ceramics, Toshiba sees many problems to solve, including joint studies with automakers, much cost reduction through mass production, gathering of enough safety and reliability-assuring data, and establishment of yield-enhancing and time-saving processing techniques.

As targets of its own necessary capital spending projects concerned, its envisions the developments of a highly-reliable annealing device, high-speed, automatic-

control cutting and grinding devices, a material evaluation device, and a low-cost mass-producing powder silicon nitride synthesizing method.

In the next or third stage of its fine ceramics business development, the corporation seeks to produce electric power-generating gas turbine blades out of such ceramics. But it will be a distant research target to be attained only in the next generation since such blades must be strong enough to withstand 100,000 hours of continuous operation as required under one of the energy-saving Moonlight Project study themes of the Ministry of International Trade & Industry.

Fine ceramics have been chosen by the Ministry as one of the objects of development under the Ministry's basic industrial technology research and development system to be inaugurated next April.

Toshiba sees the need for cooperation of both the Government and the entire Japanese industrial interests concerned to be sought through a nine-company Fine Ceramics Council Created last November for the success of its long-range bid possibly lasting until the end of this century.

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SCIENCE AND TECHNOLOGY

TINY TANTALUM CAPACITOR IS MADE

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 16

[Text]

What is believed to be the smallest electronic tantalum capacitor ever to be produced in the world has been developed by Oki Ceramic Industry Co. of Warabi, Saitama Prefecture.

According to the wholly-owned electronic parts manufacturing subsidiary of Oki Electric Industry Co., the tantalum capacitor is now in mounting demand in Japan and elsewhere for producing high reliability electronic circuitries, especially hybrid types of IC elements, sophisticated industrial machinery and equipment, aircraft and spacecraft equipment, as well as consumer electronic appliances including watches, cameras, mini-transceivers, and hearing aids.

In Japan, 100 million to 110 million units of the capacitor are now being produced

monthly. But the recent price rise of its material, tantalum oxide, already attaining anywhere between ¥120,000 and ¥150,000 a kilogram, is posing a serious cost problem.

The new product's extreme miniaturizing in size will thus mean a great economy not just of the expensive material, but the high cost.

According to the company, its new tantalum capacitor, no more than 2.7 mm long, 1.25 wide and 0.9 high, is only a third of the size of its smallest conventional equivalent, but twice as large in electrostatic capacity, or Farad (F). Such capacitor is produced by baking and hardening powders of tantalum oxide, and the smaller the powder particles and the more uniform the size of the particles, in it, the greater is its Farad (F).

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SCIENCE AND TECHNOLOGY

TESTING NEW TYPE OF ROCKET ENGINE SUCCESSFUL

Tokyo JAPAN ECONOMIC JOURNAL in English 27 Jan 81 p 16

[Text]

The governmental National Space Development Agency recently said it has attained what it believes to be complete success in testing Japan's first satellite rocket engine of liquid oxygen and liquid hydrogen type which it had developed with the cooperation of Mitsubishi Heavy Industries, Ltd. and Ishikawajima-Harima Heavy Industries Co. (IHI).

According to the Agency, the test has promised also certainty of development of a second stage (LE-5 type) of its planned powerful H-1 Series of rockets for orbiting large-scale artificial satellites in 10 years, starting in 1985.

The testing held at Mitsubishi Heavy's rocket proving ground at Tashiro Town, Akita Prefecture, involved a small simulation prototype of the prospective LE-5 type engine. A follow-up full-scale series of tests using a full-size model immediately applicable to the building of the proposed engine will be held, starting from March.

The Agency said the ex-

perimental rocket underwent 12 rounds of trial combustion totaling 230 seconds, and this showed it was almost perfect as designed under normal atmospheric pressure.

Significantly, it has testified to complete applicability of the Agency's Expander Bleed (exhaust force extraction) formula for starting the engine combustion.

The formula is to turn a turbopump to suck out the oxidizer and fuel from their tanks by the force of expansion of part of the liquid hydrogen into hydrogen gas through evaporation due to heating occurring when liquid hydrogen runs through a recycling piping system.

The formula has done away with the usual complex engine combustion starting devices, including the starting tank.

After the starting, the normal gas-generating combustion cycle takes over. The LE-5 engine is to have a vacuum-space thrust of 10 tons and a specific thrust (time for lifting its own weight) of 440 seconds.

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SCIENCE AND TECHNOLOGY

EXPERIMENTAL ELECTRONIC POSTAL SERVICE TO START IN MARCH

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 8 Dec 80 p 15

[Article: "Experimental Electronic Postal Service Starting March; Facsimile Transmission Between Tokyo, Nagoya, and Osaka"]

[Text] The Ministry of Postal Services will set up facsimile equipment in post offices in three cities, Tokyo, Nagoya and Osaka, and start an experimental "electronic postal service" next March, connecting these three cities with the exclusive circuits of the Nippon Telegraph and Telephone Public Corporation. Currently the ministry, together with a facsimile equipment manufacturer, is constructing experimental facsimile equipment. The facsimile equipment will be designed in such a way that it can be connected with a printer recorder of transmissions and receptions, automatic enveloper and an OCR (optical character reader). Thereafter, Sapporo, Yokohama and Fukuoka will be added to this project during the next fiscal year and in addition, store-and-forward computers will be added in the full-fledged experimental service.

Terminals Set at Three Main Post Offices; Mail Sent in by 2 PM To Be Delivered on the Same Day

Experiments with electronic postal service began in France in 1974, in England at the end of 1980 and the United States plans to start in 1982, each country using either the teletype or facsimile method. Each country is involved in the development of highspeed scanning machines for the modernization of postal service. The Japanese Ministry of Postal Services plans to utilize terminals set up at the windows of the post offices. Letters sent will be opened and placed on the machine by the clerk and the messages will be transmitted to the receiving post offices, which will put the letters back into envelopes and deliver them. In order to carry out this electronic postal service plan, the Ministry commissioned a facsimile equipment manufacturer to construct experimental machines.

This experimental machine will be modeled after the highspeed facsimile according to the Group III International Standard. Besides being connected to the printer recorder for the transmissions and receptions, it will also be attached to an automatic enveloper to keep the secrecy of the letter contents and to an OCR to handle large quantities of mail speedily.

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By March, 1981, the experimental facsimile machine will be set up at the Central Post Offices in Tokyo, Osaka and Nagoya, and these cities will be connected by the exclusive circuits, rented by the Nippon Telegraph and Telephone Public Corporation. The letters transmitted from these three main offices will be delivered to the addressees by 93 delivery offices. For example letters received at a main office at 2 pm or before will be delivered on the same day; those received after 2 pm will be delivered on the following day. The cost is estimated to be a little higher than the present express rate.

During 1981 three additional cities, Sapporo, Yokohama and Fukuoka will join to make this a full-fledged experimental service. Also a store-and-forward computer will be set up at the Tokyo Central Post Office, in order to cut down the cost for the dedicated circuit. This computer is able to store up messages while the circuit is overloaded, and as soon as the circuit is free, it transmits messages to the receiving facsimile at a high speed. The Ministry of Postal Services will demand 260 million yen from the government for the realization of this experimental service in 1981.

Electronic postal service is expected to be in wide practical use after 1 or 2 years. In order to provide all the post offices with facsimile service, more than 20,000 machines would be needed. This new prospect of the facsimile market is of great interest for the facsimile equipment manufacturers and the development of the facsimile machines for the postal service will certainly draw their attention in the future.

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SCIENCE AND TECHNOLOGY

INDUSTRY WANTS REDUCTION OF LEGALLY REQUIRED MINIMUM SERVICE LIFE OF IC

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 15 Dec 80 p 12

[Article: "Legal Service Life of IC Manufacturing Equipment to 4 Years/Revision of Special Measure Requested by Semiconductor Industry to Prevent Obsolescence"]

[Text] The semiconductor industry is emphatically requesting a reduction in the legally required minimum service life of IC manufacturing equipment. Because of the fast tempo of the IC technology revolution and the short product life cycle, the manufacturing equipment soon becomes obsolete. The present 5-year period does not fit the circumstances and this same phenomenon is seen in the U. S. semiconductor industry. The Japan Electronic Equipment Industry Association has made a request to the Ministry of Finance for reduction of the legally required minimum service life from the present 5 years to 4 years in the "Special Measure Concerning the Service Life of IC Manufacturing Equipment" during the 1981 tax system revision and to extend the period of application.

IC's are widely used in many areas of electronics technology. They contribute greatly to product miniaturization, higher reliability, higher added value, and greater conservation of resources and energy. Taking desktop electronic calculators as an example, in the last 15 years, the weight has dropped from 25 kilograms to 25 grams, the price from 500,000 yen to 5,000 yen, and the electric power consumed from 90 watts to 0.2 milliwatts (1/450,000). IC's have thoroughly penetrated industry and society. They have been called "the rice of industry" and the "crude oil of the future".

At any rate, the technological revolution in the IC industry is extremely rapid. The rate of integration is proceeding at a speed of double the rate of the previous year, and the accompanying progress in manufacturing apparatus is similarly spectacular. There is a particular advance in 1) increasing the diameter of the wafer (from 3 centimeters to the present 4 centimeters, a change to 5 centimeters will begin next year) and 2) miniaturization of the fabrication dimensions (4K at 8 microns to 16K at 5 microns to 64K at 3 microns). It has been necessary to keep buying new equipment to respond to these changes. Out of date equipment means losing out in the technological development and cost competition.

According to the Association, the average useful life of IC manufacturing equipment during the last 10 years has been 4 years. Coming down to the last 2 or 3 years, it was not uncommon for equipment which was still fully useable to be replaced within 2 or 3 years and there was very little equipment which could

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actually be used for 5 years. Also, the manufacturing equipment itself is getting more expensive every year and many machines cost more than 100 million yen. There are even some like the electron beam apparatus which runs over 500 million yen. Because of this, the equipment investment and research and development expenses of the Japanese IC industry continue to shoot upward and the last few years these expenses have accounted for an average of 16 percent of sales. A great financial burden, the amount of equipment investment for this year will exceed 1.5 trillion yen.

For manufacturing equipment which produces more than 100 integrated circuit semiconductor devices, the minimum number of years of service life for asset depreciation on new production equipment is set by the special measure at 5 years. And this is only effective until the last day of March 1981. When this special measure expires, the service life will revert to the 7 year period used for ordinary equipment, departing even further from reality. As we enter the era of VLSI's, the demand is growing for greater density and precision with minute fabrication dimensions going from 1 micron to submicron dimensions. In response, new high-priced equipment will have to be purchased at an even more rapid rate than in the past and therefore the request is being made for a reduction of the period of useful life to 4 years.

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SCIENCE AND TECHNOLOGY

EXPORT OF COMMUNICATION INSTRUMENT PLANTS ENCOURAGED

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 15 Dec 80 p 1

[Article: "MITI Encourages Communications Equipment Plant Exports in Preparation for NTT Liberation"]

[Text] The problem of liberation of supply sources for the Nippon Telegraph and Telephone Public Corporation is approaching final settlement. As part of a policy to alleviate the shock of liberation to the communications equipment industry, MITI is moving to encourage communications equipment plant exports. Because the large scale demand of NTT determines the life or death of the communications equipment industry, the effect of overseas procurement by NTT will be very serious. MITI's aim in urging communications plant exports is to recover the impending decrease in domestic demand. MITI is not stopping with simple promotion of plant exports. It intends to provide guidance to the industry on forming consortiums, something with which the communications industry has little experience, and direct the companies in joining together to recover the decrease in domestic demand.

At this point Japanese plant exports are at a standstill and the government is in the process of revitalizing plant exports as a measure to improve the economy. The promotion of communications equipment plant exports is one part of this policy.

Plant exports, on a dollar base, reached 11.8 billion dollars in 1979, an increase of 30 percent over the previous year. However, because of such things as the instability of the yen market and the establishment of large volume restrictions toward China, it remained about the same on a yen base. Plant exports are moving into a sluggish period.

So far this year, not much progress has been seen. So as measures to improve the economic situation, various development measures are being reevaluated in order to promote plant exports.

Communications equipment plants make up about 6 percent of Japan's plant exports but they dropped from 610 million dollars (7 percent of the total) in 1978 to 420 million dollars (3.6 percent) in 1979. They are down this year also due to the cutoff of such exports to developing countries in the wake of the Iran-Iraq war.

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However, over the long term, there is a great potential demand in the developing countries for communications systems as a part of the social infrastructure and this is expected to be a growth area in plant exports.

MITI is combining the general promotion of plant exports and measures to cope with the results of overseas procurement by NTT in its move to promote communications equipment plant exports.

MITI plans to stimulate communications equipment plant exports by strengthening export financing, for instance, by expanding yen loans, and by expanding economic cooperation and technical cooperation. Also, it is making an effort to build up consulting services which are a key to winning the battle for orders of communications equipment plants.

In addition, it plans to provide guidance for getting orders under a consortium system which has been used only rarely for communications equipment plant exports.

Consortiums in which Japanese manufacturers work in concert have often been used for heavy electric equipment plants and heavy machinery plants. But for communications equipment plants, orders have usually been obtained separately by individual manufacturers. In only rare cases have Japanese manufacturers taken orders in combination.

This has been partly caused by the differences in export competitiveness among the Japanese manufacturers of electrical equipment. However, overseas communications projects are tending to become very large and MITI takes the view that consortiums are desirable in terms of spreading out the financial risk.

Also, from the viewpoint of a post-liberation policy, MITI is asking the industry to join together and take a unified position to cope with the situation.

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SCIENCE AND TECHNOLOGY

SCIENCE, TECHNOLOGY AGENCY FUNDS DNA RESEARCH

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 10 Dec 80 p 1

[Text] The Science and Technology Agency [STA] has newly selected four research projects, which include "development of high-resolving power electronic microscopes" and "application of recombinant DNA (deoxyribonucleic acid) techniques," and decided to subsidize them through the Special Research Promotion Management Account. All of these projects pertain to the newest and most advanced technology, and it is considered essential for Japan to launch a comprehensive research and development drive in these fields. The STA is currently making the final decision on the amount of each subsidy and is planning to set up a research committee by the end of this year. The specific results from these research will be expected to come out in 2-3 years.

The Special Research Promotion Management Account is created to support a subsidy program through which government ministries and agencies jointly sponsor comprehensive research projects which need to be promoted especially. In addition to the two research projects stated above, two other projects in the field of disaster prevention technology also have been granted a subsidy. They are "a comprehensive study on sea fog and mountain winds in the Pacific coastal regions of northern Japan" and "a comprehensive study for disaster prevention through forecasting the quantity of precipitation in the area".

The research study on microscopes will attempt to develop a new system which is twice as powerful as conventional systems and also causes little electron-beam radiation damage to samples. For this purpose, new technology on superconducting lens will be investigated to be applied in future high-resolving power electronic microscopes. In order to establish the project guidelines, a basic research will be conducted on the electron-beam source, the method of recording sample images on the stage and an analysis system. With regard to the project on application of recombinant DNA, which is a field of genetic engineering, the study will be conducted to establish a production technology, such as technology to efficiently create genetic variations in colon bacilli. Application of this production technology will make it possible to mass-produce medicine that is now difficult to secure in a large quantity with the present technology.

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